**Federal Trade Commission and Department of Justice**
**Hearings on the Implications of**
**Competition and Patent Law and Policy**

# Competition Law and Intellectual Property Protection in Japan: A Half-Century of Progress, A New Millennium of Challenges[1]

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## Introduction

Japan, the United States and the European Union have made significant strides in building and harmonizing advanced competition[3] and intellectual property laws and enforcement systems. The laws and policies of these jurisdictions reflect recognition of the fact that that innovation and competition are the twin engines of progress.

Despite progress over the past four decades, important differences remain. Some can be attributed simply to the imperfect and episodic way in which law develops. Some reflect deeply held views steeped in history and culture. Still others appear on occasion to be either engineered or invoked for political or protectionist purposes. Accusations and suspicions of exclusionary application of intellectual property and competition law and of protectionist trade policies by both sides[4] have strained the relationship between Japan and the United States, especially in the late 1980s and 1990s.

The history of this relationship and the importance of these two markets mandate that any consideration of the "intersection" between antitrust and intellectual property law, in the case of the U.S.-Japan relationship, must include consideration of yet another intersection: the intersection that both antitrust and intellectual property share with trade

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[2] Partner, Alston & Bird LLP

[3] See Spencer Weber Waller, The Internationalization of Antitrust Enforcement, 77 B.U.L. Rev. 343, 347 (1997)("Most commentators have failed to note the extent to which harmonization [of antitrust laws] has already taken place. Already, most nations have antitrust rules that are substantially similar on a textual level.")

[4] See Fusae Nara, A Shift Toward Protectionism Under § 301 of the 1974 Trade Act: Problems of Unilateral Trade Retaliation Under International Law, 19 HOFSTRA L. REV. 229 (1990)("The United States government often portrays itself as the strongest advocate of free trade principles, condemning the protective trade policies of foreign governments. However, due to the enormous trade deficit experienced by the United States [during the 1980s], its free trade policy has changed significantly. A sharp contrast has emerged between the United States' tough talk on free trade and the protectionist actions of Congress and the Administration.")

law and policy.[5] Trade tensions have hampered reconciliation of differences in the IP and competition policies of the U.S. and Japan. In addition, while we continue to seek to harmonize U.S. law with Japanese law, the U.S. should undertake serious efforts to resolve internal inconsistencies and unresolved issues among U.S. antitrust law, trade law and IP law.[6]

This paper seeks to provide an elementary overview of the differences in competition and patent law and policy between Japan and the United States in the context of Japanese culture and the history of this important bilateral relationship; some insight into how far Japan and the United States have progressed toward harmonization of protections for intellectual property and enforcement of competition law; and, it is hoped, a few useful thoughts on approaches toward even greater convergence.

## I. Development of Japanese Intellectual Property Law

### A. Cultural Foundations

One's cultural context informs everyone's notions of property, including intellectual property. Japan's intellectual property law, practice and enforcement reflect Japanese societal norms. Chief among these is the interests of society. "Japanese copyright law [for example], like Japanese society, considers the interaction of

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[5] See generally Thomas J. Schoenbaum, The International Trade Laws and the New Protectionism: The Need for a Synthesis with Antitrust, 19 N.C. J. INT'L L. & COM. REG. 393 (1994). Indeed, every significant trade negotiation with Japan has placed intellectual property enforcement as a major priority. John C. Lindgren and Craig J. Yudell, Articles Protecting American Intellectual Property in Japan, 10 COMPUTER & HIGH TECH. L.J. 1, 10 (1994). Trade laws also typically include certain protections for misuse of intellectual property, including unfair competition through violations of intellectual property rights in imported goods. See generally William P. Atkins, Appreciating 337 Actions at the ITC: A Primer on Intellectual Property Issues and Procedures at the U.S. International Trade Commission, 5 U. BALT. INTELL. PROP. J. 103 (1997); Ted Sano, Historical Consequences of the Trade Relationship between Japan and the United States, 16 ARIZ. J. INT'L & COMP. L. 29 (1999); Charles M. Gastle, The Convergence of International Trade and Competition Law Through a WTO Market Access Code, 8 CURRENTS INT'L TRADE L.J. 3 (1999); Daniel J. Gifford, Antitrust and Trade Issues: Similarities, Differences and Relationships, 44 DEPAUL L. REV. 1049 (1995).

[6] See Douglas E. Rosenthal, Sovereignty Revisited: The Dimensions of Sovereignty – A U.S. Approach, 24 CAN.-U.S. L.J. 11, 14 (1998)("There remains too much segmentation of policy, too much reliance on governmental experts with narrow technical specialties and with too limited perspectives. Intellectual property law in the United States, Europe, and Japan is made by people hostile to competition law, and both of these fields, intellectual property and competition, are largely walled off from experts who make national and international trade policy. This is a mistake."); Thomas R. Howell, The Trade Remedies: A U.S. Perspective, in TRADE STRATEGIES FOR A NEW ERA: ENSURING U.S. LEADERSHIP IN A GLOBAL ECONOMY 299, 313 (Geza Feketekuty & Bruce Stokes eds., 1998)(the "institutional fissure between trade and antitrust is itself working to undermine the ability of the United States to deal with new forms of protectionism that jeopardize the world trading system, most notably the 'privatization' of market areas abroad," and noting that a similar "divide" exists in other nations, including Japan).

individuals and the society simultaneously and values the correlative responsibilities at least as highly as the individual rights."[7]

Unlike the United States Constitution,[8] the Constitution of Japan[9] itself does not address intellectual property rights. It does, however, reflect the primacy of the public interest in connection with all types of property rights. Article 29 provides as follows:

The right to own or to hold property is inviolable.

> (2) Property rights shall be defined by law, in conformity with the public welfare.
>
> (3) Private property may be taken for public use upon just compensation therefor.

"A concept of rights is not necessary, of course, for the enforcement of legal rules. Duties alone suffice."[10] Chinese law, from which early Japanese law was adapted "only knew duties; duties toward the state and duties toward one's elders and betters."[11] Sinicized legal systems of East Asia "precluded the development of the concept of 'legal rights.'"[12] Western law derives from the Roman tradition, which relied primarily on a system of rights "to delineate those persons with the legally recognized capacity to enforce certain substantive legal rules, whether made by legislative, administrative, or judicial authorities, or even, as in the case of contracts, private parties given rulemaking authority."[13]

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[7] Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA Pac. Basin L.J. 32, 36 (1994).

[8] U.S. Const. art. I, § 8, cl. 8 ("The Congress shall have power . . . [t]o promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive rights to their respective writings and discoveries.")

[9] Given the patent and copyright clause in the United States Constitution, and the fact that Americans drafted the Constitution of Japan, the absence of reference to patents or copyrights in that document may seem surprising. It is not surprising, however, when one considers that the document was drafted so soon after the end of the war. The drafters focused narrowly on the most pressing structural issues: transforming the role of the Emperor, abolishing Japan's right to conduct war, ending the feudal system, and constructing in its place national democratic institutions. The new Constitution was approved overwhelmingly by the Diet, was promulgated on November 3, 1946 and came into force in May of 1947. See John Dower, EMBRACING DEFEAT 346-404; 561-62 (1999); W.G. Beasley, THE JAPANESE EXPERIENCE, A SHORT HISTORY OF JAPAN, 253 (1999).

[10] John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 11 (1991).

[11] A.F.P. Hulsewé, The Legalists and the Laws of Ch'in, in LEYDEN STUDIES IN SINOLOGY (W.L. Idema ed., 1981).

[12] John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 21 (1991).

[13] Id.

The primacy of duty to society underlies the Japanese general sense that ideas should be free. Indeed, a "central tenet of Confucianism is that an idea cannot be owned but must be shared.[14] The very idea of intellectual property rights being tied up in a single individual or company is therefore alien to ancient Japanese culture."[15] While not specific to intellectual property law, The Horei[16] provides that any provision of an otherwise applicable law will not apply if contrary to the "public order and good morals" of Japan. Such broad aphorisms of public policy exist in U.S. law, but the force of the Horei provision is of a higher order of magnitude. This immutable cultural value imbues Japanese concepts of intellectual property and must be borne in mind if one hopes to understand the Japanese approach to intellectual property issues.[17]

The cultural gulf between Japan and the United States, not to mention the distinct and strong territorial theories of sovereignty in each country present great obstacles to those seeking to harmonize the intellectual property policies of these two nations. But these are also two great economies, and markets for goods and services are increasingly borderless. Asymmetries in IP protection will work to the overall detriment of holders of IP rights and consumers in both countries, disadvantaging both in what is now truly a global marketplace. The reconciliation of these policy differences must begin with a thorough understanding by each country of the other's IP laws, enforcement, and long-term IP policies.[18]

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[14] See George Sansom, A HISTORY OF JAPAN TO 1334, at 98 (1958)(the one important feature of Confucian thought that "met with ready response in Japanese minds" during the 8th century A.D. was the "elevation of duties above rights.")

[15] John C. Lindgren and Craig J. Yudell, Protecting American Intellectual Property in Japan, 10 COMPUTER & HIGH TECH. L.J. 1, 11-12 (1994). See also Christian H. Nguyen, A Unitary Asean Patent Law in the Aftermath of TRIPS, 8 PAC. RIM. L. & POL'Y 453, 487-88 (there is widespread consensus that "in Asian cultures, intellectual properties have no traditionally been regarded as private capital goods."), CITING INTELLECTUAL PROPERTY LAWS OF EAST ASIA, 19 (Alan Gutterman and Robert Brown, eds., 1997).

[16] Horei, or Act Concerning the Application of Laws, Law No. 10 of June 21, 1898, as amended by Law No. 7 of 1942 and Law No. 223 of 1947, Law No. 100 of 1964, and Law No. 27 of 1989, translated in Zentaro Kitagawa, DOING BUSINESS WITH JAPAN, Statute Volume, app. 3B (1995).

[17] See Mitsue Dairaku, Copyright Protection in Japan, JAPAN BUS. L. LETTER, Jan., 1990, at 8 ("Japanese copyright law, like Japanese society, considers the interactions of individuals and the society simultaneously and values the correlative responsibilities at least as highly as the individual rights."); John D. DeFrance, Sound Recordings: Copyright and Contractual Differences Between the United States and Japan, 21 LOY. L.A. INT'L & COMP. L.J. 331, 344 (1999)("In the United States, copyright law exists to give a creative monopoly . . . so that an individual may exploit their works as a property right. By beginning with the individual, it is thought to 'promote the progress of science and the useful arts.' Japan's copyright law, in contrast, seeks to 'maximize efficiency, productivity and the common good rather than isolating and rewarding the occasional star.'"), quoting U.S. Const. art. 1, § 8, cl. 8; Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA PAC. BASIN L.J. 32, 36 (1994).

[18] See Toshiko Takenaka, Harmonizing the Japanese Patent System with its U.S. Counterpart through Judge-Made Law: Interaction between Japanese and U.S. Case Law Developments, 7 PAC. RIM L. & POL'Y 249 (1998)("A clear trend indicated by recent Japanese cases indicates the eagerness of Japanese courts to adopt U.S. patent law doctrines and move the Japanese patent system closer to the U.S. system.")

## B. The Patent Act and Utility Model Act

Japan first granted monopolies for novel inventions in 1871,[19] but did not enact its first patent statute, the Patent Monopoly Act, until April 8, 1885.[20] That law remained in force until the enactment of the first Japanese Patent Act in 1921, which for the first time granted patents to the first to file rather than the first to invent.[21]

The current Patent Act,[22] enacted in 1959, provides for the patenting of "inventions," both new and improved products and processes, if the inventions meet the three legal criteria of novelty, utility and inventiveness.[23] The Utility Model Act[24] permits registration of inventions that fulfill the requirements of novelty and utility, and meet a lower standard of inventiveness, satisfied "when a device is such that it could have quite easily been made by a person having ordinary knowledge in the technical field to which such device pertains."[25] Any person who has made (or received assignment) of an invention may apply for a patent or utility model. Non-residents are entitled to apply only if their home country provides Japanese nationals the right to apply for patents.

As noted above, and consistent with most jurisdictions other than the U.S., the Patent Act gives priority to the first to file a patent, not the first to invent or use it. If a

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For a discussion of specific Japanese judicial IP decisions, in English, see Kenneth L. Port, Japanese Intellectual Property Law in Translation: Representative Cases and Commentary, 34 VAND. J. TRANSNAT'L L. 847 (2001).

[19] See generally Brian P. Biddinger, Limiting the Business Method Patent: A Comparison and Proposed Alignment of European, Japanese and United States Patent Law, 69 FORDHAM L. REV. 2523 (2001); A Aoki et al., JAPANESE PATENT AND TRADEMARK LAW 17 (1976).

[20] See Andrew H. Thorson & John A. Fortkort, Japan's Patent System: An Analysis of Patent Protection Under Japan's First-to-File System, 77 J. PAT. & TRADEMARK OFF. SOC'Y 211, 214 (1995).

[21] Brian P. Biddinger, Limiting the Business Method Patent: A Comparison and Proposed Alignment of European, Japanese and United States Patent Law, 69 FORDHAM L. REV. 2523, 2539 (2001)

[22] Tokkyo Ho, Law 121, 1959 (the "Patent Act"), translated in R. Foster and M. Ono, THE PATENT AND TRADEMARK LAWS OF JAPAN (1970). See also Teruo Doi, THE INTELLECTUAL PROPERTY LAW OF JAPAN (1980); A. Kukimoto, SUMMARY OF JAPANESE PATENT LAW (1971); Note: The Role of the Patent System in Technology Transfer: The Japanese Experience, 26 COLUM. J. TRANS. L. 131 (1987). For a discussion of differences and similarities between U.S. and Japanese patent law, see John C. Lindgren and Craig J. Yudell, Protecting American Intellectual Property in Japan, 10 COMPUTER & HIGH TECH. L.J. 1, 17-22 (1994); Stephen Lesavich, The New Japan-U.S. Patent Agreements: Will They Really Protect U.S. Patent Interests in Japan?, 14 WIS. INT'L L.J. 155, 161-71 (1995).

[23] Patent Act, art. 29. See Mitsuo Matsushita and Thomas J. Schoenbaum, JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW, 188-91 (1989).

[24] Jitsuyo Shin'an Ho, Law 123, 1959 ("Utility Model Act").

[25] See Mitsuo Matsushita and Thomas J. Schoenbaum, JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW, 189 (1989).

person independently invented and used the invention before the patent was filed by another, however, the first inventor may use it in his business on a non-exclusive basis.[26] The Japan Patent Office ("JPO") may require a compulsory license if a patented invention is not properly worked for more than three years, or if such a compulsory license is required by the public interest.[27]

The patent is published eighteen months after an application is filed, regardless of whether the patent has yet been issued.[28] Patents in Japan have historically taken a long time to be approved, so, in the typical case, a patent will not have issued within that time period. U.S. companies and others have asserted that this aspect of Japan's system diminishes the value of their invention, by allowing competitors to see what the patent applicant is working on, and begin to design around the invention or work on improvements.[29]

One vexing substantive difference between U.S. and Japanese patent law is the fact that the Japanese Patent Act does not require disclosure of the best mode. Though Section 24 of the Regulations under the Patent Act, entitled "form of specification," requires a specification prepared in accordance with Form 16, and Section 14b of Form 16 specifies that "The Applicant should give as many examples as possible of those which he considers bring about the best results. . . .," apparently no Japanese court has ever ruled a patent invalid on grounds of failure to disclose the best mode.[30]

The Patent Office (*Tokkyocho* or JPO)[31] is a division of METI[32] and examines all applications and grants or denies patents. The JPO has been regarded by many U.S.

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[26] Patent Act, arts. 72 and 79.

[27] Id. art. 93. See also Mark F. Wachter, Patent Enforcement in Japan: An American Perspective for Success, 19 AIPLA Q.J. 59, 67 (1991)(observing that compulsory licensing is used in the Japanese patent system to resolve the dominant-subservient patent blocking problem).

[28] This aspect of Japanese patent law differed from U.S. law until the 1994 Patent Agreements, discussed *infra*. Some believe this practice facilitates exploitation of the patent system by using the first publication information defensively through oppositions filed after the second publication and offensively through responsive improvements to opponents' own published inventions and development of their R&D programs. Toshiko Takenaka, The Role of the Japanese Patent System in Japanese Industry, 13 UCLA PAC. BASIN L.J. 25 (1994).

[29] Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA PAC. BASIN L.J. 32, 50-51 (1994). In the 1994 Patent Agreements, discussed *infra*, Japan committed to a reduction of the length of patent examinations.

[30] See James A. Forstner, International Business Implications of the U.S. Best Mode Requirement, 21 AIPLA Q.J. 157, 158-59 (1993). Cf. Donald S. Chisum, PATENTS § 7.05[1] (1991), detailing the best mode requirement under 35 U.S.C. § 112 (2000).

[31] See generally the JPO website at http://www.jpo.go.jp/

[32] In 2001, MITI was reorganized as the Ministry of Economy, Trade and Industry (METI). See generally the METI website at http://www.meti.go.jp/english/index.html.

companies as favoring Japanese patentees in order to protect the Japanese market from foreign competition.

> Many American patent law practitioners believe that the Japanese Patent Office has an active policy of preventing American inventors from obtaining meaningful protection of intellectual property in Japan. This perception, however true it may have been in the past, is no longer valid in today's political and economic climate. It is possible for Americans to receive valuable patent rights in Japan today. Furthermore, the favoritism previously thought to exist for Japanese applicants over foreign applicants is [as of 1994] on the decline.[33]

Greater openness to foreign applicants is often attributed to both political pressure from the Reagan and first Bush administrations, as well as economic factors, including an increase in patent enforcement activities of Japanese firms.[34]

Patents and utility models may be assigned on either an exclusive or a non-exclusive basis, but such assignments must be registered with the JPO.[35] The Japanese patent system permits the patenting of incremental, seemingly inconsequential and obvious changes from existing patented technology, often precluding others from easily designing around a patent.[36]

> If American patent practice is a game of chess, in which stronger pieces capture weaker ones, the Japanese approach is more like the traditional Asian board game of "Go." In Go, one wins not by directly confronting the opponent, but rather by surrounding and isolating the opponent. Patent flooding, the offensive use of the strict interpretations of patent claims, is used to surround an existing patent with new, limited innovation. Over time, the original patent holder finds himself unable to maneuver. In Japan, patent flooding is not only common practice, but it is also fair play.[37]

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[33] John C. Lindren and Craig J. Yudell, Protecting American Intellectual Property in Japan, 10 COMPUTER & HIGH TECH L.J. 1, 6-7 (1994).

[34] Id. at 11.

[35] Patent Act, art. 98.

[36] See Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA PAC. BASIN L.J. 32, 42-43 (1994).

[37] Id. at 44. There is fear that a similar, if less extensive, practice may be used in the U.S. with pernicious effect. See Arun Chandra, King Instruments Corp. v. Perego: Should Lost Profits be Awarded on Unpatented Products Where Patentee Sits on Its Patents?, 16 CARDOZO ARTS & ENT. L.J. 635, 655 (1998)("After *Rite-Hite* and *King Instruments*, any company with a dominant market position will be able to prevent competition . . . merely by applying for patents on alternative devices, even though these devices

Such patent flooding is feasible because Japanese patent applications do not need to meet the U.S. requirements for a "more complete and fully worked-out invention prior to filing."[38] While the number of utility model applications has fallen, patent applications have increased significantly in recent years, to over 446,000 in 2000, representing an increase of 7.2% over the prior year.[39] The pre-grant opposition procedure that allows oppositions during the application process after opponents view their competitors' applications also contributes to patent flooding.[40]

Broad cross-licensing among those holding patents relevant in a given field is commonplace in Japan. Some U.S. companies view such industry-wide sharing of technology as unfair.[41] In addition, even in the late 1940s, U.S. firms claimed that Japanese licensees did not abide by restrictions in their licenses.[42] These aspects of the Japanese patent system have been regarded by some as a barrier against U.S. (and other non-Japanese) companies competing fairly in Japan.[43]

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are never made available to consumers. Potential competitors will shy away from competition with these dominant companies because of the threat of being punished for any unintentional infringement. As a result, rather than promoting and encouraging technological innovation, the patent system will be used to stifle it."), citing Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538 (Fed. Cir. 1995); and King Instruments Corp. v. Perego, 65 F.3d 941 (Fed. Cir. 1995); Sri Krishna Sankaran, Patent Flooding in the United States and Japan, 40 IDEA 393 (2000). See also Note: Patent Flooding in the Japanese Patent Office: Methods for Reducing Patent Flooding and Obtaining Effective Patent Protection, 27 GW J. INT'L L. & ECON. 531 (1993-1994).

38 Scott Erickson, Patent Law and New Product Development: Does Priority Claim Basis Make a Difference?, 36 AM. BUS. L.J. 327, 333 (1999).

39 See Japan Patent Office, TRENDS IN INDUSTRY PROPERTY RIGHT APPLICATIONS AND REGISTRATIONS, August 2001, available at http://www.jpo.go.jp/tousie/1308-049.htm; Japan Patent Office, THE NUMBER OF APPLICATIONS AND REGISTRATIONS IN 2001, April 20, 2002, available at http://www.jpo.go.jp/tousie/report_a_r_e.htm.

40 See Jeffrey A. Wolfson, Patent Flooding in the Japanese Patent Office: Methods for Reducing Patent Flooding and Obtaining Effective Patent Protection, 27 GEO. WASH. J. INT'L & ECON. 531 (1994).

41 Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA PAC. BASIN L.J. 32, 45-46 and 52 (1994)(noting that "[s]ome in Japan respond that. . . . [t]he problem may not be too much sharing of the information [among Japanese entities], but not enough [among U.S. companies]").

42 See Chalmers Johnson, MITI AND THE JAPANESE MIRACLE, 223 (1982).

43 See Mitsuo Matsushita and Thomas J. Schoenbaum, JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW, 190 (1989)(These aspects of the Japanese "patent system pose[] problems for foreign firms wishing to enter the Japanese market and to protect their patent rights against infringement."); Nancy J. Linck and John E. McGarry, Patent Procurement and Enforcement in Japan – A Trade Barrier, 27 GW J. INT'L L. & ECON. 411, (1993-1994)(Barriers include "(1) deferred examination, a process that severely limits the scope of protection; (2) a lengthy appeals process; (3) pre-grant opposition; (4) required filing of a large number of patent applications; (5) compulsory licensing; and (6) a litigation system fraught with delay, narrow claim interpretation, and essentially no right to discovery.")

As in many countries, patent attorneys in Japan (*benrishi)* are members of a profession that is entirely separate from attorneys at law (*bengoshi*). Recent changes to Patent Attorney Law have expanded the range of activities in which *benrishi* can engage, including greater involvement in the courtroom. This reform has been criticized as upsetting the balance between the two professions and possibly leading to poorer service for owners of intellectual property, in part because the revised law required no additional training of *benrishi.*[44]

U.S. companies have found obtaining and enforcing patents in Japan difficult. During an October, 1994 symposium on international intellectual property law, the then U.S. Commissioner of Patents and Trademarks, Bruce Lehman, remarked that the relative nonlitigiousness of the Japanese society tends to minimize the importance of enforcement.[45] U.S. companies by and large regarded this as cold comfort when they found themselves, as a practical matter, unable to enforce their patents against perceived infringements. Limited discovery, limited use of expert witnesses, high burdens of proof of causation and damages, and the absence of judicial authority to increase damages for willful infringement, as well as high attorneys' fees and filing fees have all been cited as features of the Japanese IP enforcement system that deprive IP owners of a meaningful private remedy for infringement in Japanese courts.[46] Some have asserted that aspects of the Japanese patent system violate Japan's obligations under TRIPs.[47]

The interplay between the Patent Act and Japan's principal competition statute, the Antimonopoly Act,[48] defines the circumstances under which the exercise of patent rights may be subject to antitrust scrutiny. The AMA provides that "The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act."[49] The central question in the analysis of whether conduct related to intellectual

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44 Lee Rousso, Japan's New Patent Attorney Law Breaches Barrier Between The "Legal" and "Quasi-Legal" Professions: Integrity of Japanese Patent Practice at Risk?, 10 PAC. RIM L. & POL'Y 781 (2001).

45 William C. Revelos, Patent Enforcement Difficulties in Japan: Are There Any Satisfactory Solutions for the United States?, 29 GW J. INT'L L. & ECON. 503, 504-05 (1994).

46 See Scott K. Dinwiddie, A Shifting Barrier? Difficulties in Obtaining Patent Infringement Damages in Japan, 70 WASH. L. REV. 833 (1995).

47 Id. at 536 ("A strong argument can be made . . . that the excessive delays and costs that plague the Japanese infringement litigation process, as experienced by U.S. companies, are in direct contravention of the mandate of article 41 [of TRIPs].") See Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Dec. 15, 1993, 33 I.L.M. 81 (1994)("TRIPs").

48 Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of Apr. 14, 1947)(the "AMA"). For an English translation of the AMA, see ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan 82-129 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001).

49 AMA § 21 (formerly § 23).

property rights can be subject to attack under the AMA is whether such conduct constitutes an "exercise of rights" under one of the Japanese IP statutes. "[I]f the restraint is a legitimate exercise of intellectual property rights, it is exempted from antitrust liability. If it is not, then the conduct may violate the AMA as private monopolization, unreasonable restraint of trade, or an unfair trade practice."[50] This theory – known as the "confirmation theory" is commonly accepted and holds that, while patent rights are guaranteed just like other general property rights,[51] they are fully subject to the AMA, even if "inherent rights" are exercised.[52]

The AMA clearly contemplates the application of antitrust law to violations involving patent rights. Section 100 of the AMA provides, in pertinent part, as follows:

> Sec. 100
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> [Revocation of Patent Rights or Patent Licenses and Exclusion from Government Contracts]
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> (1) The court may, in a case coming under Section 89 [penalties against private monopolization or unreasonable restraint of trade, or substantial restraint of competition by a trade association] or Section 90 [penalties against prohibited international agreements or contracts, prohibited acts by a trade association, and non-observance of final and conclusive decision, etc.] according to circumstances, make the following declaration simultaneously with the sentence of penalties: Provided, That the declaration under paragraph (i) hereunder shall be made only when the said patent right, or exclusive or non-exclusive license for a patented invention belongs to the offender:
>
> (i) That the patent under patent right, or the exclusive or non-exclusive license for the patented invention to which the offense relates shall be revoked;
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[50] Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 717 (2001).

[51] Regarding the Constitutional foundation of property rights and the Supreme Court Grand Bench Decision of April 22, 1987 clarifying the limitation on the authority of the legislature to restrict property rights, see Mutsue Nakamura, "Freedom of Economic Activities and the Right to Property," in Percy R. Luney, Jr. And Kazuyuki Takahashi, JAPANESE CONSTITUTIONAL LAW, 253-66 (1993).

[52] ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 56-57 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001).

(2) The Director-General of the Patent Office shall upon receipt of the certified copy of the judgment under the provisions of the preceding subsection, revoke the patent right, or the exclusive or non-exclusive license for the patented invention.

The original version of the AMA prohibited agreements that provided for the exclusive use of technologies or know-how, a provision seen as "[b]y far the most serious problem" with the original statute, as it "stopped in their tracks all Japanese efforts to import technology."[53] The move away from that position began in 1968, when the Japan Fair Trade Commission ("JFTC") issued its first set of guidelines on competition enforcement policy on technology licensing conduct. Changes in these guidelines over the years mirror the liberalization of Japanese enforcement policy toward IP rights generally, and broad changes in global competition law policy.

## C. The Copyright Act

Japan joined the Berne Union in 1899[54] and adopted its first copyright law that year. The Copyright Act of 1899 remained in effect until it was replaced by the current statute enacted in 1970,[55] which has been amended several times.[56] Official registration is not required to obtain its protections. If desired, copyrighted material may, however, be recorded at the Culture Affairs Department of the Ministry of Education. The law protects works first published in Japan and works published abroad and published in Japan within thirty days, and includes the exclusive right of reproduction, the right to make the work public, the right to preserve the work against mutilation or modification, the exclusive right of performance, broadcasting, wire transmission, exhibition, cinematographic presentation and distribution, translation and adaptation, as well as rights of recitation and rights regarding the exploitation of a derivative work.[57] The copyright remains valid for the life of the author plus fifty years, except for films and photographs, for which the period is fifty years following creation of the work.[58] As a

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53 Chalmers Johnson, MITI AND THE JAPANESE MIRACLE, 223 (1982).

54 The Berne Convention grew from the Convention for the Protection of Literary and Artistic Works, signed in Berne, Switzerland in 1886 (the "Berne Convention" or, as administered, the "Berne Union"). See Melville Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 1.01 (1998). Regarding the U.S. accession to the Berne Convention, see the Berne Convention Implementation Act of 1988, Pub. L. No. 100-568 § 1, 102 Stat. 2853 (1988); Final Report of the Ad Hoc Working Group on U.S. Adherence to the Berne Convention, 10 COLUM.-VLA J.L. & ARTS 513, 527 (1986); Ralph Oman, The United States and the Berne Union: An Extended Courtship, 3 J.L. & TECH. 71, 75 (1988).

55 Chosakuken Ho, Law 48, 1970, amended by Law 49, 1978; Law 46, 1984; Law 62, 1985; and Law 64, 1986 (the "Copyright Act").

56 See Judith J. Welch & Wayne L. Anderson, Copyright Protection of Computer Software in Japan, 11 COMPUTER L.J. 287 (1991), reprinted in COMPARATIVE LAW, LAW AND THE LEGAL PROCESS IN JAPAN, 754 (Kenneth L. Port ed. 1996).

57 Copyright Act, arts. 18, 20-28.

58 Id. art. 51.

signatory of the Berne Convention, Japan is obligated to provide reciprocal protection of works originating in other signatory countries.[59]

In addition to traditional literary, artistic, cinematographic and photographic works, the Copyright Act expressly grants protection to computer programs and software.[60] This protection, however, does not cover any programming language, rule or algorithm used for making software or computer programs.[61] Since 1986, the Copyright Act has included protection of circuit layouts of semiconductor integrated circuits.[62] Upon registration, such works are protected for a period of ten years.

U.S. copyright law focuses largely on the individual property rights of the author and his licensee and assignees.

> In contrast, Japan's copyright law reveals a balancing of interests between individual inventors and society. Rather than securing exclusive rights, the law's purpose "is to prescribe the rights of authors." Unlike American patent and copyright law, which assumes exclusive rights from the outset, Japanese copyright law speaks of "promoting the protection of the rights of authors, etc., giving consideration to a fair exploitation of these cultural products, and thereby . . . contributing to the development of culture.
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> . . . Japan does not make the interest of the public an exception to copyright; it includes the public interest in the allocation of rights. Article 33 further clarifies this "public welfare" idea. Article 33 provides publishers of government-approved school textbooks an absolute right to copy copyrighted material "for the use of children

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59 Japan is also a party to the Universal Copyright Convention of 1952, revised in Paris, 1971.

60 Copyright Act, as amended by Law 62, 1985. "Program works including computer software" are now included as a separate category of protected works under art. 10 of the Copyright Act. See Judith J. Welch and Wayne L. Anderson, Copyright Protection of Computer Software in Japan, 11 COMPUTER L.J. 287 (1991), reprinted in COMPARATIVE LAW, LAW AND THE LEGAL PROCESS IN JAPAN, 754 (Kenneth L. Port ed., 1996). See also the discussion of software protection, *infra*.

61 See Mitsuo Matsushita and Thomas J. Schoenbaum, JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW, 211 (1989).

62 Copyright Act, as amended by Law 64, 1986. Cf. United States Semiconductor Chip Act of 1984, 17 U.S.C. § 901 et seq. (2000). See generally Leo J. Raskind, The Semiconductor Chip Protection Act of 1984 and Its Lessons: Reverse Engineering, Unfair Competition, and Fair Use, 70 Minn. L. Rev. 385 (1985). Regarding Japanese trade issues that resulted in the enactment of this U.S. legislation, see M. Borrus, J. Millstein & J. Zysman, U.S. – JAPANESE COMPETITION IN THE SEMICONDUCTOR INDUSTRY (1982).

> or pupils . . . ." The Commissioner of the Agency for Cultural Affairs then fixes an appropriate amount of payment for the use. In American copyright parlance, this is known as a compulsory license. What is crucial here is that the ability to use the material is never in doubt because the public purpose is compelling.[63]

The Copyright Act as implemented has been criticized as making it "hard to copyright" because Japanese courts require a showing of creativity that emphasizes novelty, but "easy to infringe" because Japanese law does not include a general fair use defense against a charge of infringement.[64]

### D. The Trademark Act

Specific recognition of trademarks appeared at least as early as A.D. 701, and records exist of a case in 718 enjoining the use of a prior user's mark. Continuing this tradition into the second millenium, during the Muromachi Period (1392-1573), those who misused trademarks were punished.[65] Modern protection of trademarks stems from the first Japanese trademark law enacted in June, 1884 (Meiji 17). The law established a registration-based system that shortened the period of protection available under existing common law. The law also provided that non-use for three years would be grounds for canceling the trademark rights.[66]

The current Trademark Act[67] protects "characters, letters, figures or signs, or any combination of these and colors which are used on goods by a person who produces, processes, certifies or assigns such goods in the course of trade"[68] if such are properly registered with the Director General of the JPO.[69] The registration must designate one or

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[63] Dan Rosen and Chikako Usui, The Social Structure of Japanese Intellectual Property Law, 13 UCLA PAC. BASIN L.J. 32, 35 (1994), quoting Copyright Act, arts. 1 & 33.

[64] See Dennis S. Karjala & Keiji Sugiyama, Fundamental Concepts in Japanese and American Copyright Law, 36 AM. J. COMP. L. 613 (1988), reprinted in COMPARATIVE LAW: LAW AND THE LEGAL PROCESS IN JAPAN, 715, 719, 710, 724, 726 (Kenneth L. Port ed., 1996).

[65] Kenneth L. Port, Protection of Famous Trademarks in Japan and the United States, 15 WIS. INT'L L.J. 259, 261-62 (1997).

[66] Id.

[67] Shohyo Ho, Law 127, 1959 ("Trademark Act"). See generally Doris Nehme, Comparing Trademark Laws in the United States and Japan, 12 J. CONTEMP. LEGAL ISSUES 441 (2001); Kenneth L. Port, Protection of Famous Trademarks in Japan and the United States, 15 WIS. INT'L L.J. 259 (1997); Frank X. Curci & Tamotsu Takura, Legal Aspects of Conducting Business in Asia: Selected Aspects of Japanese Intellectual Property Law, 8 TRANSNAT'L LAW. 63 (1995).

[68] Trademark Act, art. 4(1).

[69] See generally Masaya Suzuki, The Trademark Registration System in Japan: A Firsthand Review and Exposition, 5 MARQ. INTELL. PROP. L. REV. 133 (2001).

more goods on which the mark will be used. Trademark registrations remain in force for ten years and may be renewed unless the mark has not been in current use in Japan.[70] Virtually anything that has a distinctive quality or secondary meaning can be trademarked; actual use is not required for registration.[71] Trademarks can be assigned, or licensed on an exclusive or non-exclusive basis.[72]

The significant differences between Japanese and U.S. trademark protection stem from the different express objectives of the two laws. As with other Japanese laws, the Trademark Act focuses on broad societal interests, while U.S. law focuses more on the trademark owner's rights.[73] Many U.S. trademark owners have been surprised to learn that a Japanese court may order a public apology to restore business goodwill, in lieu of (or in addition to) damages.[74] As one commentator noted:

> The function of intellectual property laws in Japan has traditionally been greatly affected by the social framework in which those laws operate. Courts have been slow to recognize infringement and extremely reluctant to award damages beyond the minimal amount of lost royalty payments. [Based on an expansive determination of damages in one recent case and recent amendments to the Patent Act, however,] [f]ortunately, the situation appears to be changing.[75]

Beyond the amount of damages awarded, the apparent unwillingness of Japanese courts to enforce Japan's trademark laws rigorously has long been a source of concern for foreign competitors. In one famous instance in 1933, Firestone Rubber Company sued Japan's Bridgestone Rubber Company, founded in 1931, because of confusion allegedly caused by the similarity of the name chosen by Bridgestone. Bridgestone prevailed

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70 Trademark Act, arts. 18 & 19.

71 Mitsuo Matsushita and Thomas J. Schoenbaum, JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW, 204 (1989).

72 Id. at 205.

73 Kenneth L. Port, A Comparison between Japanese and United States Trademark Laws, 29 CHUO COMPARATIVE LAW REV. (1995), reprinted in COMPARATIVE LAW, LAW AND THE LEGAL PROCESS IN JAPAN, 791, 791-92 (Kenneth L. Port ed., 1996).

74 Holly Emrick Svetz, Japan's New Trade Secret Law: We Asked For It: Now What Have We Got?, 26 GW INT'L L. & ECON. 413, 434-35 (1992). See also Jay Dratler, Jr., Trademark Protection for Industrial Designs, 1988 U. ILL. L. REV. 887 n. 417 (1988)("In Japan, a public apology for trademark infringement, usually by publication in specified newspapers, is a common remedy in trademark actions"), citing Eguchi, The Publication of Apology ("*shazai-kokoku*") as a Remedy for Unfair Competition in Japan, 18 OSAKA U. L. REV. 19 (1971).

75 Masumi Anna Osaki, A Look at Damage Awards Under Japan's Trademark Law and Unfair Competition Prevention Law, 8 PAC. RIM. L. & POL'Y 489, 514 (1999).

because the name was a literal translation of the name of the company's founder, Mr. Ishibashi.[76]

## E. Trade Secrets Provisions of the Unfair Competition Act

Japan's Unfair Competition Act as initially enacted in 1934 after Japan's execution of the Hague amendments to the Paris Convention[77] followed the structure of the 1909 German Act Against Unfair Competition, with one notable exception: the absence of any trade secret protection.[78] The assurance that the tradition of lifetime employment gave to employers that their secrets would remain with them, and reliance on the culturally strong duty of loyalty to employers,[79] it was thought, rendered such protection unnecessary.[80] Because of mounting complaints from U.S. companies about perceived theft of trade secrets in their dealings with Japan and the absence of a legal remedy, and because of the U.S. desire to include trade secret protection in the Uruguay Round of GATT negotiations, the U.S. pressured Japan to establish formal protection of trade secrets. In 1990, it did so by incorporating new trade secret provisions into the Unfair Competition Act.[81]

The trade secrets provisions protect "technical or business information . . . useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known."[82] If possible, this protection is wider than that afforded by the Uniform Trade Secrets Act ("USTA") because it expressly protects business information. The statute prohibits the acquisition of trade secrets by unfair means (e.g., theft or cheating); misusing a legitimately acquired trade secret in order to engage in unfair competition or to obtain unfair gain; and willful or gross negligence in acquiring, using or disclosing trade secrets that have been tainted by an unfair act.[83] As under the

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76 Chalmers Johnson, MITI AND THE JAPANESE MIRACLE, 223 (1982).

77 The Paris Convention for the Protection of Industrial Property, March 20, 1883, 25 Stat. 1372, 161 Consol. T.S. 409, amended July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 306 (the "Paris Convention").

78 Hiroshi Oda, Protecting Trade Secrets in Japan, FINANCIAL TIMES (LONDON), Sept. 6, 1990, at 46.

79 See generally Curtis J. Milhaupt, A Relational Theory of Japanese Corporate Governance: Contract, Culture, and the Rule of Law, 37 HARV. INT'L L.J. 3 (1996).

80 Holly Emrick Svetz, Japan's New Trade Secret Law: We Asked For It: Now What Have We Got?, 26 GW INT'L L. & ECON. 413, 419-20 (1992).

81 Fusei Kyoso Boshi Ho, Law No. 14 (1934), as amended by Law No. 66 (1990)("Unfair Competition Act").

82 Id. art. 1, 3. See also 2 JAPAN BUS. L. GUIDE (CCH) ¶ 63,720, at 53,504 (Mitsuo Matsushita ed., 1990).

83 Ministry of International Trade and Industry (MITI), A PARTIAL AMENDMENT OF THE UNFAIR COMPETITION PREVENTION LAW TO PROTECT TRADE SECRETS (1991), at 2(2). See also Teruo Doi, The New Trade Secret Statute of Japan, PAT. & LIC. (JAPAN), Aug. 1990, at 5, 8.

USTA, third parties are liable for misappropriation if they knowingly or with gross negligence acquire, use or disclose a trade secret previously improperly acquired.[84] The law also provides for injunctive relief and actual (but not punitive)[85] damages.[86]

## II. Development of Japanese Competition Law and Enforcement

### A. Origins of Japanese Competition Law

It is something of an American conceit to believe, despite our relative youth as a nation, that we invented a concept as fundamental as competition law. In fact, of course, such laws existed in many countries in ancient times.[87] In Japan, such laws existed at least as early as the sixteenth century.[88] Records reveal even earlier instances of the existence of cartels in Japan and occasional punishments of their members for anticompetitive conduct.[89]

### B. Growth of State-Encouraged Cartels in the Nineteenth and Early Twentieth Centuries

Modern capitalism in Japan, without *de jure* class restrictions on participating in the economy and embracing modern banking and currency systems, arose after the Meiji Restoration of 1868, at which time Japanese companies began to look abroad fervently for technology. The Meiji government undertook major economic reforms, including the development and operation of modern factories.

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84 For a thorough general discussion of U.S. trade secrets law, see Robert G. Bone, A New Look at Trade Secret Law: Doctrine in Search of Justification, 86 CALIF. L. REV. 241 (1998).

85 See generally Kerry A. Jung, How Punitive Damage Awards Affect U.S. Businesses in the International Arena: The Northcon I v. Mansei Kogyo Co. Decision, 17 WIS. INT'L L.J. 489 (1999).

86 Holly Emrick Svetz, Japan's New Trade Secret Law: We Asked For It -- Now What Have We Got?, 26 GW J. INT'L L. & ECON. 413, 430-34 (1992).

87 See ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Overview, 6-7 and n. 3-5 (H. Stephen Harris, Jr., ed., 2001).

88 See Hideaki Kobayashi, Deputy Secretary-General, Japan Fair Trade Comm'n, "Japan's Views on International Cooperation in the Field of Competition Policy," Remarks before American Bar Association Section of Antitrust Law, Midwinter Meeting, Hawaii, Jan. 27, 1997 (noting that "[e]veryone who studies high-school-level Japanese history knows the phrase, *raku-ichi-raku-za*," the 16th century policy in Japan of abolishing monopolistic privileges of trade associations, or guilds).

89 See, e.g. George Sansom, A HISTORY OF JAPAN, 1334-1615, at 190 (1961)(describing the arrest, trial (by the ordeal of boiling water) and directions to punish rice dealers, in 1431, who formed a cartel and withheld rice from the citizens of Kyoto to enforce a price increase, and the subsequent decision of a Deputy Governor not to carry out the punishment because he was in league with the cartel members).

The late nineteenth and early twentieth centuries saw robust private industries emerge and grow to prominence. Family-based cartels gained dominance during this time, including the *Zaibatsu* conglomerates, most notably the four major *Zaibatsu* -- Sumitomo, Mitsui, Mitsubishi and Yasuda.[90] During the late nineteenth century, the Meiji government facilitated the growth and further strengthened the market power of the *Zaibatsu* in various ways, including transferring to them extremely valuable properties such as dockyards and mines.[91] The *Zaibatsu* organized holding companies that, through cross-ownership of stocks and interlocking directorates, enabled a single company to control the activities of an entire *Zaibatsu* group.[92] To some extent, these holding companies are reminiscent of the trusts formed by U.S. industrialists that spurred passage of the Sherman Act in 1890. In contrast, however, none of the *Zaibatsu* dominated a single industry.[93]

Other cartels sprang up as well.[94] Their effectiveness at increasing prices or constraining output is questionable, and most collapsed. There is evidence that "[t]hose that did endure tended to foster rather than discourage competition by creating new or more efficient rivals."[95]

The Japanese government, seeking to control industrialization, including industries needed to strengthen its military, encouraged other cartels in major industries. Organized cartels, such as the Paper Manufacturing Federation, began to appear in the 1880s, resulting in constraints on production.[96] Formal cartels in sugar, flour, fertilizer and other fields, followed in the first decade of the twentieth century.[97] Legislation facilitated the creation of trade associations with potential for anticompetitive restraints, although a 1916 decree prohibited price-fixing.[98]

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90 See Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 1-2 (1983). The four major *Zaibatsu* businesses originated much earlier (Sumitomo, in the sixteenth century, Mitsui in the seventeenth, Yasuda in the eighteenth and Mitsubishi in the nineteenth).

91 Id. at 4.

92 Id.

93 John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 10-11 (2001)(quoting Eleanor M. Hadley as stating that the older and larger *Zaibatsu* "were all conglomerates. . . . The goal was not high-market occupancy of a few related markets, but oligopolistic positions running the gamut of the modern sector of the economy.")

94 See generally INTERNATIONAL CARTELS IN BUSINESS HISTORY, Proceedings of the Fuji Conference (Akira Kudo & Terushi Hara, eds., 1992).

95 John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 9-10 (2001).

96 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 2 (1983).

97 Id.

98 John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 10 (2001).

During the depression following World War I, additional cartels emerged including those in the cement, copper, steel, pulp and wool industries. The Japanese government enabled these cartels to maintain market power through policies that stabilized the organizations and restricted competition.[99] Two statutes enacted in 1925 granted the government the power to approve cartel resolutions and control the activities of non-members of cartels.[100] Through these and subsequent statutes, the number of Associations implementing cartel resolutions grew from 20 in 1925 to 850 in 1936.[101] The Important Industries Control Act of 1931 sought to prevent excessive competition among larger companies, and empowered the government to restrict and supervise the competitive activities of non-members of cartels.[102] Over twenty important industries were designated by this Act.

In 1933, monopolies were established in the paper and brewing industries. Tax exemptions and other benefits for large-scale concentrations in the iron and steel industries were provided by the Iron and Steel Industry Promotion Act of 1917, followed by the enactment of the Japan Iron and Steel Company Act of 1933, which effected the merger of the large government-owned Yawata Foundry with seven private steelmakers, creating a single enterprise that was soon producing over 95 percent of the total pig iron production in Japan.[103] Throughout the remainder of the 1930s, business control laws were passed that required government approval for the opening of a business or the establishment of new facilities in many industries.[104]

During World War I and the years following and aided by passage of legislation allowing concentration in the banking industry, the *Zaibatsu* entered -- and soon dominated -- that industry, a domination that was only reinforced during subsequent economic depressions.[105] The Japanese government relied heavily upon the *Zaibatsu* for the production of supplies for World War II, and supported the transition of *Zaibatsu* businesses to the war effort.

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99 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 3 (1983).

100 Id. These were the Export Association Act for smaller exporters and the Important Export Commodities Industrial Association Act for smaller manufacturers. Subsequent statutes strengthened the legal status of the cartels.

101 Id.

102 Id. See also John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 10 (2001)(twenty-four cartels were formed under this law, most of which were inactive, and that, four years later, there were thirty-five compulsory and fourteen voluntary, with eight trade associations, mainly for exporters).

103 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 3 (1983).

104 Id at 6 and n. 11, including, inter alia, the Petroleum Industry Act of 1934, the Airplane Manufacturing Industry Act of 1938, and the Shipbuilding Industry Act of 1939.

105 Id. at 5

Despite the strength of the *Zaibatsu* and the government's support of their activities especially in the 1930s and throughout World War II, small competitors were prevalent and broader Japanese industry generally remained competitive.[106] While prominent in many industries, *Zaibatsu* were altogether absent from others in the prewar years, including textile manufacture, motor vehicles and auto parts production.[107]

At the conclusion of World War II, the U.S. President's Directive of Sept. 6, 1945 expressly stated that it "shall be the policy of the Supreme Commander . . . to favor a program for the dissolution of the large industrial and banking combinations which have exercised control of a great part of Japan's trade and industry."[108] Rapidly implementing this policy, SCAP[109] issued various directives and enacted the Holding Company Liquidation Commission Ordinance, under which holding companies were dissolved. By an Imperial ordinance, fifty-six members of *Zaibatsu* families were required to surrender their company securities. Approximately 2,200 executives of *Zaibatsu*-affiliated entities were ordered to retire. The Act for Termination of *Zaibatsu* Family Control of 1948 also prohibited certain *Zaibatsu* family members from holding executive positions in companies.[110]

### C. Enactment of the Antimonopoly Act (AMA)

The AMA was passed in the wake of World War II. Its enactment was required by SCAP Directive No. 24 of Nov. 6, 1945 concerning the "Dissolution of Holding Companies."[111] The directive required passage of "such laws as will eliminate and prevent monopoly and restraint of trade, unreasonable interlocking directorates, undesirable inter-corporate security ownership, and assure the segregation of banking from commerce, industry and agriculture, and as will provide equal opportunity to firms and individuals to compete in industry, commerce, finance and agriculture on a democratic basis."[112] Working in close coordination with SCAP, the Ministry of International Trade and Industry (MITI)[113] and other ministries drafted the AMA,[114]

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106 John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 11 (2001)(citing observations by the British economist, George C. Allen).

107 Id. at 11-12.

108 For a detailed history of the development of SCAP's deconcentration policy and its implementation, see John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 14-30 (2001).

109 Supreme Commander of the Allied Powers.

110 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 9 (1983).

111 See Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 10-11 (1983).

112 Id. at 10.

113 In 2001, MITI was reorganized as the Ministry of Economy, Trade and Industry (METI). See generally the METI website at http://www.meti.go.jp/english/index.html.

which was enacted on the final day of the last session of the Imperial Parliament under the old Meiji Constitution and came into effect on July 20, 1947.[115]

The express purposes of the AMA are: "to promote free and fair competition; to stimulate the initiative of entrepreneurs; to encourage business activities of enterprises; to heighten the level of employment and the people's real income; and thereby, to promote the democratic and wholesome development of the national economy as well as to assure the interests of consumers in general."[116] In contrast to the long history of case law under the Sherman Act leading to general consensus regarding the consumer welfare goals of antitrust, the AMA has as one of its avowed purposes consumer welfare. This language can be misleading, however. There is support in Japan for the propositions that consumer welfare itself is not the objective of competition policy, but is an effect of that policy, and that consumer welfare is subordinate to "development of the national economy."[117] Moreover, the AMA is not seen as promoting competition as an end in itself. Instead, "[t]he competition to be assured is 'free and fair' competition and not unqualified competition. . . . "[118]

The AMA includes both the substantive antitrust law of Japan, and provisions establishing the JFTC and its procedures.[119] The substantive provisions of the AMA include prohibitions on unreasonable restraints of trade (cartels), private monopolization (including abuses of a dominant position), and unfair trade practices (including unjust use of one's bargaining power). In addition, the AMA prohibits the formation of holding companies, intercorporate shareholding by non-financial companies and a general restriction on financial institutions holding more than 5% of another company's stock.

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114 For a detailed history of the establishment of the Antitrust Legislation Branch of SCAP and its "constitutional convention," see John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 30-32 (2001); Harry First, Antitrust in Japan: The Original Intent, 9 PAC. RIM L. & POL'Y 1 (2000)(based on original Occupation documents and describing the drafting process and the input by the Japanese and American sides); Alex Y. Seita & Jiro Tamura, The Historical Background of Japan's Antimonopoly Law, 1994 U. ILL. L. REV. 115 (1994); Robert Stack, Western Law in Japan: the Antimonopoly Law and Other Legal Transplants, 27 MAN. L.J. 391 (2000).

115 Id. at. 11.

116 AMA § 1.

117 Hideaki Kobayashi, Deputy Secretary-General, Japan Fair Trade Commission, Competition Policy Objectives – A Japanese View, presented at the Competition Workshop, Florence, Italy (June 13-14, 1997), at 3, available at http://www.jftc.go.jp/e-page/speech/970613.htm.

118 Id. at 2.

119 The JFTC proper consists of a Chairman and four Commissioners. Regarding the precise structure, personnel and procedures of the JFTC, see ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 59-67 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001). Regarding current internal operating policies and goals, see Shoji Ishii, Hearing Examiner, Fair Trade Commission of Japan, Efficiency and Fairness – The Japanese Experience, remarks at the International Symposium on Justice and Efficiency in Law Enforcement, Qingdao, China (Oct. 8-10, 1997), available at http://www.jftc.go.jp/e-page/speech/971008.htm.

While modeled after U.S. antitrust laws, the AMA as enacted contained several provisions that had no counterpart in American law. For example, long before the passage of the Hart-Scott-Rodino Antitrust Improvements Act of 1976[120] in the U.S., the AMA included provisions requiring prior approval of mergers and acquisitions.[121]

D. The Trade Association Act

Because trade associations had played a significant role in the concentration of numerous Japanese industries, SCAP supported adoption of the Trade Association Act as legislation supplementary to the AMA. Enacted on July 29, 1947, the Act defined the legitimate scope of activities of trade associations and provided for a system of notification of those activities to the JFTC. The Act prohibited trade associations from engaging in restraints of trade, price control, rigging bids and other specified types of anticompetitive conduct.[122]

E. The 1949 and 1953 Amendments of the AMA

From 1948 through the end of the occupation, SCAP essentially reversed its policy strongly favoring competition law enforcement.[123] Consequently, with SCAP's encouragement, the AMA was amended in 1949 to relax the cross-shareholding, interlocking directorate and other prohibitions.[124] Though criticized widely by Japanese consumers, who largely supported the AMA, a second amendment was passed in 1953[125] that deleted numerous prohibitions, including those on certain concerted activities. The prohibition of "unfair methods of competition" was changed to "unfair business practices." The Trade Association Act was abolished. Proposed further relaxation in 1958[126] was defeated, in part by the spirited opposition of consumers.[127] As a consequence, the number of cases pursued by the JFTC decreased in the years following

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120 15 U.S.C. § 18a (2000).

121 AMA § 16.

122 See Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 13 (1983). While the Trade Association Act was repealed in 1953 during a period of relaxation of the Japanese competition laws following the end of occupation, Section 8 of the AMA, as currently in force, prohibits substantial restraints of competition by trade associations.

123 See John W. Dower, EMBRACING DEFEAT, 532-33 (1999)(Of the 325 large firms designated for possible breakup under the "deconcentration law," only eleven were ordered to be broken up.)

124 See John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 52-53 (2001).

125 Id. at 53-56.

126 See John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 57 (2001).

127 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 14-19 (1983).

the 1953 amendment, and enforcement of the AMA around 1958 was "extremely passive."[128]

## III. Modern Japanese Intellectual Property and Competition Law and Policy

### A. The 1960s: The Beginning of Meaningful Competition Enforcement and the *1968 Guidelines*

#### 1. Increased JFTC Activity and Depression Cartels

During the 1960s, a decade that saw a period of rapid growth followed by recession, the JFTC was initially asked to enforce the AMA strictly in order to combat rapidly rising prices.[129] The JFTC responded by significant increases in enforcement activities against both price cartels and resale price maintenance.[130] During the same period, MITI issued an important report highlighting the importance of free competition in an era of increasing international trade.[131] The report stated:

> It goes without saying that the nation's economy admits freedom of activity for enterprises and finds its driving power in the originality and invention of enterprise, and in order to advance the efficiency of industrial activity, full utilization of the function of competition should be made, and without it the above purpose cannot be attained. It is also considered important to promote the sense of responsibility on the part of enterprises through the function of competition, considering that the enterprises of this nation used to show a lack of such a sense of responsibility in the past.
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> Furthermore, the best way to return the benefits realized through the improvement of the efficiency of industrial activity to general consumers most faithfully is believed to be by way of competitive order . . . . The role of the [AMA] to maintain competition is very important. In this sense, it is the more

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128 Id. at 16, 18.

129 Id. at 21, discussing Economic Planning Agency, REPORT ON THE RECENT PRICE PROBLEM, December, 1963.

130 Id. at 22.

131 Id. at 23, discussing the Report of the Research Committee on Industrial Structure of MITI, published in 1964 as INDUSTRIAL STRUCTURE IN JAPAN.

necessary to develop wider recognition concerning the role and the effect of the [AMA].[132]

Despite this report, MITI undertook during 1963 to set up a credit system through the Japan Development Bank and a preferential tax policy, to promote mergers as a way to cope with international competition.[133] The government also pressured firms in various industries to merge. In 1966, MITI announced its proposal for the establishment of holding companies, necessitating the amendment of Section 9 of the AMA. Unfortunately, Japan also soon entered a severe recession, resulting in the approval of depression cartels in numerous industries. The JFTC saw such temporary cartels as preferable to enforced production curtailment.[134]

The JFTC initiated proceedings against some of the most troubling mergers during this period. These included investigations of the proposed merger of the three largest paper manufacturers, ultimately causing the parties to abandon the proposed deal, and a complaint under Section 15 of the AMA opposing the proposed merger of two largest steel producers, resulting in a consent decision transferring certain assets and technology to competitors.[135] The JFTC attacked more illegal cartels during the eight years between 1962 and 1970 than in the previous sixteen years combined. More JFTC decisions against cartels were issued between 1962 and 1968 than in the first six years of years of antitrust enforcement during the occupation.[136]

### 2. The *1968 Guidelines*

In 1968, the JFTC promulgated *the Antimonopoly Act Guidelines for International Licensing Agreements*,[137] its first effort to espouse the agency's views regarding technology licensing conduct that may violate the AMA. The *1968 Guidelines* "chart the evolution of Japanese enforcement policy along the three overlapping axes: (1) away from overtly favoring licensees over licensors and toward greater neutrality; (2) away from favoring Japanese firms over foreign firms and toward greater neutrality; and (3) away from summary condemnation of licensing restraints and toward case-by-case analysis of competitive effects."[138] The guidelines provided a short "blacklist" of

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132 Id., quoting the chapter of the Report entitled "Way for Advancement of Industrial Structure."

133 Id. at 25.

134 Id. at 24-25.

135 Id. at 25-26.

136 John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 59 (2001).

137 Japan Fair Trade Commission, ANTIMONOPOLY ACT GUIDELINES FOR INTERNATIONAL LICENSING CONTRACTS (May 24, 1968), reprinted in ANTIMONOPOLY LEGISLATION OF JAPAN (Masanao Nakagawa, ed., 1984)(the "*1968 Guidelines*").

138 Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 717 (2001).

prohibited licensing provisions, each of which was subject to various exceptions. The blacklist prohibited, for example, territorial restrictions on a licensee's exports, restrictions on a licensee's export prices or quantities, tying, exclusive distribution obligations, resale price maintenance, requiring grantbacks, charging royalties on goods not using the licensed technology, and quality obligations regarding the goods embodying the technology. Also included was a "white list" of expressly permitted practices, such as limiting the license to less than the full term or scope of the patent, field of use restrictions, and restricting sales or output of goods produced with the licensed technology.

The *1968 Guidelines* applied solely to international licenses, and was criticized as disfavoring non-Japanese licensors during a period (1968 to 1989) when Japanese industry was licensing (i.e., importing) a great deal of foreign technology.[139] They were promulgated during an era of antitrust enforcement during which the U.S. itself subjected such license restrictions to severe scrutiny under the "Nine No-No's."[140]

## B. The 1970s: Competition Enforcement and Relaxation of Regulation of Technology Transfers

### 1. Increased JFTC Enforcement Against Cartels

During the 1970s, the JFTC increased enforcement activities, primarily against cartels and resale price maintenance agreements, including cases against six international cartels. The JFTC issued sixty-six formal decisions in 1973 and 1974, fifty-eight of which found violations of the AMA. Criminal prosecutions under the AMA also increased notably during this decade. Twelve oil wholesalers and thirteen directors of companies were indicted for alleged violations of Section 3 of the AMA (prohibiting private monopolization). A major trade group, the Japan Federation of Oil, was charged with violating Section 8 (prohibiting restraints of trade by trade associations). The oil companies and their directors were found guilty, but the Federation and its representatives were acquitted on the grounds that the trade association's restrictions of production had been based on direct or indirect administrative guidance from MITI.[141]

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139 See, e.g., Japanese Competition Policies are Pondered by Senate Committee, 63 ANTITRUST & TRADE REG. REP. (BNA) No. 1577, at 177 (Aug. 6, 1992).

140 See Bruce B. Wilson, "Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions," Address Before the Fourth New England Antitrust Conference (Nov. 6, 1970), in ANTITRUST PRIMER: PATENTS, FRANCHISING, TREBLE DAMAGE SUITS, 1970 PROC. OF THE FOURTH N. ENG. ANTITRUST CONF. 11 (1970). See also Willard K. Tom and Joshua A. Newberg, "Antitrust and Intellectual Property: From Separate Spheres to Unified Field," 66 ANTITRUST L.J. 167, 175-82 (1997)(discussing the origins of the "Nine No-No's" of technology licensing).

141 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 29 (1983).

### 2. The 1977 Amendment to the AMA

At the urging of the JFTC led by Chairman Takahashi, the AMA was amended again in 1977.[142] This amendment significantly strengthened the law and provided augmented anti-cartel enforcement tools available to the JFTC. The amendment empowered the JFTC to impose a surcharge on illegal cartels, thereby recapturing undue profits garnered by the cartel. The amendment also provides measures to enable the JFTC to restore competitive conditions in monopolized markets, including the power to order any entity involved to transfer portions of its business. To address the problem of parallel pricing, the amendment established a price reporting system for oligopolistic industries and strengthened the AMA's restriction on stockholding by large firms and financial institutions. Other reforms included increases in criminal fines.[143]

Following the 1977 amendment, the JFTC continued strong enforcement efforts, collecting surcharges against cartels of over ¥ 6.6 billion between 1977 and March of 1982, and charging 490 persons and entities with violations during the same period.[144]

### 3. Relaxation of Regulation of Technology Transfers

Until 1980, international technology transfer agreements were regulated under the Foreign Exchange and Foreign Trade Control Law and the Foreign Investment Law (as well as by the Antimonopoly Act and IP laws).[145] In 1979, a new Control Law was enacted that reduced the extent to which Japan exercised regulatory restraints over technology transfers (except those related to weapons, nuclear technology and other subjects implicating national security).[146]

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142 See John O. Haley, ANTITRUST IN GERMANY AND JAPAN, 59-60 (2001)(noting that the strengthening of antitrust enforcement followed OPEC's oil embargo, President Nixon's termination of the Bretton Woods accord in 1971 and the consequent thirty percent rise of the yen against the dollar, making Japanese exports significantly more expensive, all of which contributed to what was at the time Japan's most severe postwar recession.)

143 Hiroshi Iyori and Akinori Uesugi, THE ANTIMONOPOLY LAWS OF JAPAN, 29-30 (1983).

144 Id. at 30.

145 See Mitsuo Matsushita and Thomas J. Schoenbaum, Japanese International Trade and Investment Law, 185-86 (1989).

146 Id.

## C. The 1980s: Trade Tensions, and New Challenges to Enforcement of Competition and IP Laws

### 1. JFTC Enforcement Activities

During the 1980s, the JFTC increased active enforcement of the AMA. Anti-cartel enforcement has been a particular focus of those efforts.[147] Widely publicized successes of Japanese industries in competition with U.S. industries, principally the automobile and consumer electronics industries,[148] resulted in an onslaught of American criticism of Japanese industrial practices, antitrust law and enforcement.[149] Specifically, critics asserted that sanctions under the AMA were inadequate and ineffectual,[150] including in particular the infrequent use of criminal sanctions.[151] The absence of an unfettered private right of action for damages under the AMA has been seen as a serious omission in the arsenal of anti-competitive remedies available in Japan.[152] The JFTC was also said to be under-funded and under-staffed and thus unable to provide the level of competition enforcement required in an economy the size of Japan. Other experts saw these problems as reasons to support an international antitrust enforcement regime.[153]

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147 See Akinori Yamada, Head of Oligopolistic Industry Affairs Bureau, Japan Fair Trade Commission, "Recent Development of Competition Law and Policy in Japan," presented at the Fordham Corporate Law Institute Conference on International Antitrust Law and Policy, New York, NY (Oct. 16-17, 1997), at 2 (noting 20 bid-rigging cases out of a total of 31 formal JFTC actions in FY1995, and 6 out of a total of 21 in FY 1996), available at http://www.jftc.go.jp/e-page/speech/971015.htm.

148 For a discussion of the Japanese "takeover" of the U.S. television and VCR markets and related litigation, see David S. Taylor, The Sinking of the United States Electronics Industry Within Japanese Patent Pools, 26 GW J. INT'L L. & ECON. 181-93 (1992).

149 See Philip J. Curtis, THE FALL OF THE U.S. CONSUMER ELECTRONICS INDUSTRY: AN AMERICAN TRADE TRAGEDY (1994).

150 See, e.g., U.S. Trade Representative, 1998 NATIONAL TRADE ESTIMATE REPORT 36 (1988)("A key reason for the prevalence of anticompetitive business practices [in Japan] is the JFTC's historically weak antitrust enforcement record"), available at http://www.ustr.gov/html/1998contents.html; Yumiko Ono, U.S. Official Says Japan Needs to Toughen Antitrust Measures, ASIAN WALL ST. J., Apr. 29, 1992, at 12 (quoting U.S. Trade Representative as stating that a planned four-fold increase in penalties imposed by the JFTC may not be an "adequate deterrent").

151 See, e.g., U.S. Trade Representative, 1995 NATIONAL TRADE ESTIMATE 4-5 (1995)(stating that JFTC enforcement is "weak and ineffective," as shown by, inter alia, its infrequent use of criminal prosecution), available at http://www.ustr.gov/reports/nte/1995/japan.html.

152 See, e.g., Mark K. Morita, Structural Impediments Initiative: Is It An Effective Correction of Japan's Antimonopoly Policy?, 12 U. PA. J. INT'L BUS. L. 777, 796-99 (1991).

153 Eleanor M. Fox, Toward World Antitrust and Market Access, 91 A.J.I.L. 1 (1997)(noting that "Japan has antitrust laws that, on their face, would protect markets and also protect competitors from unfair abuses; but pervasive regulation, a government role in coordinating business behavior, and acceptance of patterns of business cooperation have made the law less than robust.")

U.S. trade and industry officials also cited lax enforcement of the AMA as one factor unfairly blocking access to Japanese markets.[154] Commentators as well have criticized enforcement as often half-hearted, and cited the JFTC's failure to attack aggressively certain practices seen by some as public or private barriers to access to the Japanese market.[155]

Kodak's alleged exclusion from the Japanese photographic film large-store market, and other well publicized claims of market barriers led to the first finding by the U.S. Trade Representative, pursuant to Section 301 of the Trade Act of 1974, of unfair trade practices, based on the Japanese Government's alleged "toleration" of "systematic anticompetitive practices"[156] and to a complaint to the WTO that was ultimately rejected.[157]

Various structural aspects of Japanese business and industry also drew criticism, most notably the *keiretsu*.[158] These affiliated corporate groups (both horizontal and vertical) were seen as interlocking webs impenetrable by U.S. firms seeking to enter the Japanese market.[159] In 1987, companies affiliated with *keiretsu* accounted for 40.7% of

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154 See, e.g., U.S. Trade Representative, 1995 NATIONAL TRADE ESTIMATE REPORT 5 (1995)("Although improvements in Japan's antimonopoly enforcement policy have occurred in the last several years . . . legal remedies and antimonopoly enforcement efforts in Japan continue to fall far short of that necessary to ensure that Japanese markets are open to competition from U.S. and other foreign competitors."), available at http://www.ustr.gov/reports/nte/1995/japan.html. But see John O. Haley, Antitrust Enforcement: Do Differences Matter?, 4 PAC. RIM. L. & POL'Y J. 303, 321-22 (1995)(finding no credible evidence that "lax" Japanese antitrust enforcement has disadvantaged non-Japanese firms seeking to compete in Japan).

155 See, e.g., James F. Rill, Competition Policy: A Force for Open Markets, 61 ANTITRUST L. J. 637, 639-41 (1993); Jason E. Kearns, International Competition Policy and the GATS: A Proposal to Address Market Access Limitations in the Distribution Services Sector, 22 U. PA. J. INT'L ECON. L. 285 (2001). But, as to strictly governmental barriers, see Daniel K. Tarullo, Norms and Institutions in Global Competition Policy, 94 A.J.I.L. 478, 483 (2000)("Government practices, while often of enormous consequence for industry structure and consumer welfare, cannot be attributed to enforcement failures by antitrust authorities.")

156 See generally Frank J. Schweitzer, Flash of the Titans: A Picture of Section 301 in the Dispute Between Kodak and Fuji and a View Toward Dismantling Anticompetitive Practices in the Japanese Distribution System, 11 AM. U.J. INT'L L. 7 POL'Y 847 (1996).

157 See William H. Barringer, Competition Policy and Cross Border Dispute Resolution: Lessons Learned from the U.S.-Japan Film Dispute, 6 GEO. MASON L. REV. 459 (1998); Jay L. Eizenstat, The Impact of the World Trade Organization on Unilateral United States Trade Sanctions Under Section 301 of the Trade Act of 1974: A Case Study of the Japanese Auto Dispute and the Fuji-Kodak Dispute, 11 EMORY INT'L L. REV. 137 (1997).

158 *Keiretsu* have been seen as a natural development in Japanese business circles, given Japan's strong cultural premium on cooperation and group identity. See Clyde V. Prestowitz, Jr., TRADING PLACES, 293 (1989).

159 See David S. Taylor, The Sinking of the United States Electronics Industry Within Japanese Patent Pools, 26 GW J. INT'L L. & ECON. 181, 184-87 (1992).

the capital of non-financial institutions in Japan and 32% of all non-financial assets in Japan.[160] In response to U.S. pressure, in 1991 the JFTC issued *Distribution Guidelines*[161] in an effort to address what were perceived to by the most serious market access barriers presented by *keiretsu* and other cooperative business practices in the Japanese distribution system. These were largely seen in the U.S. as only a modest improvement.[162] *Keiretsu* were also blamed for some perceived exclusionary conduct by Japanese firms in U.S. markets, in part a consequence of widespread concern about massive investment by Japanese companies in the United States during the 1980s.[163]

Throughout the 1980s, U.S. officials and commentators blamed the U.S.-Japan growing trade imbalance, at least in part, on the law and policy of Japan, especially in the fields of competition and intellectual property.[164] Indeed, U.S. concern over such perceived impediments to trade rose to the level that the "weakness" of Japan's enforcement of its competition laws was officially deemed a significant trade barrier.[165] During the 1980s, U.S. pressure to open Japan's markets led to the Structural Impediments Initiative Agreement of 1990 (the "SII Agreement"), through which the U.S. exerted repeated rounds of pressure on Japan to strengthen its antitrust laws and enforcement.[166] Under the SII Agreement, Japan committed to improving its enforcement of the AMA, raising penalties for violations and easing restrictions on

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160 Angelina Helou, The Nature and Competitiveness of Japan's Keiretsu, J. WORLD TRADE, June 1999, at 99, 105 n. 26.

161 JFTC, ANTIMONOPOLY ACT GUIDELINES CONCERNING DISTRIBUTION SYSTEMS AND BUSINESS PRACTICES, July 11, 1991 (the "*Distribution Guidelines*"), available through http://www.jftc.go.jp/.

162 See Jonathan D. Richards, Japan Fair Trade Commission Guidelines Concerning Distribution Systems and Business Practices: An Illustration of Why Antitrust Law is a Weak Solution to U.S. Trade Problems with Japan, 1993 WIS. L. REV. 921 (1993).

163 See Ulrike Wassmann and Kozo Yamamura, Do Japanese Firms Behave Differently? The Effects of *Keiretsu* in the United States, 119, 140 in JAPANESE INVESTMENT IN THE UNITED STATES: SHOULD WE BE CONCERNED? (ed. Kozo Yamamura, 1989)("Sales restrictions of OE by Japanese *keiretsu* firms raise antitrust and trade policy questions that are detrimental to harmonious bilateral economic relations, especially to the U.S. perception of Japanese investment in the United States.")

164 See, e.g., Alex Y. Seita & Jiro Tamura, The Historical Background of Japan's Antimonopoly Law, 1994 U. ILL. L. REV. 115, 119-22 (1994)(chronicling U.S. trade officials' arguments blaming the trade deficit on weak Japanese antitrust enforcement).

165 The Office of the U.S. Trade Representative, THE 2000 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS, 195-98, 227 (2000)(identifying "inadequate enforcement" of Japanese competition law, and other perceived inadequacies of Japanese competition law and policy as trade barriers).

166 See, e.g., A.E. Cullison, J. Comm., Apr. 15, 1992 at 1A (quoting U.S. Ass't Attorney General James F. Rill characterizing Japanese antitrust enforcement as ineffective despite measures adopted by Japan in connection with the SII Agreement).

private antitrust suits.[167] Many of the same criticisms raised during the SSI negotiations, however, are heard today.[168]

The *1989 Guidelines*

The *1989 Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing*,[169] which replaced *the 1968 Guidelines*, reflected important policy shifts, including the JFTC's declaration of application of consistent legal standards and analyses to foreign and domestic IP licenses. The *1989 Guidelines* sought to respond to foreign fears of uncertainty regarding permissible license restrictions by creating an optional "clearance" procedure under which proposed international transactions could be submitted for JFTC review prior to execution.

The *1989 Guidelines* retained the white list/black list structure of the *1968 Guidelines*, but added a "grey list" into which many previously blacklisted clauses were transferred. In essence, the grey list reflected the JFTC's shift away from *per se* treatment of many kinds of licensing restraints, and toward a rule of reason approach for the great majority of restrictive licensing provisions. While resale price maintenance provisions, prohibitions against licensees handling competing goods after expiration of the license,[170] exclusive grantback clauses, and a few other types of restraint remained on the black list, many others now moved to the grey list, including requirements for exclusive dealing, in-term prohibitions on dealing in competitive goods and technologies,

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167 See Daniel Steiner, The International Convergence of Competition Laws, 24 MAN. L.J. 577, 616 (1997); Mitsuo Matsushita, The Structural Impediments Initiative: An Example of Bilateral Trade Negotiations, 12 MICH. J. INT'L L. 436, 448-49 (1991)(by "filling a gap created by the lack of political leadership in Japan," the SII Agreement was an important "supplement to" and "not a substitute for" the General Agreement on Tariffs and Trade (GATT)); Abbott B. Lipsky, Jr., Current Developments in Japanese Competition Law: Antimonopoly Act Enforcement Guidelines Resulting from the Structural Impediments Initiative, 60 ANTITRUST L.J. 279 (1991).

168 See, e.g., U.S. Trade Representative, 1998 NATIONAL TRADE ESTIMATE REPORT 35 (1998)("The JFTC's ability to enforce Japan's fair competition laws is hindered by its historically weak stature among Japanese ministries, shortage of personnel, and perceived lack of autonomy."), available at http://www.ustr.gov/html/1998contents.html; Charles A. Brill & Brian A. Carlson, "U.S. and Japanese Antimonopoly Policy and the Extraterritorial Enforcement of Competition Laws," 33 INT'L LAW. 75, 84-87 (1999)(arguing that the JFTC lacks the authority needed to enforce Japanese competition law).

169 Japan Fair Trade Commission, GUIDELINES FOR THE REGULATION OF UNFAIR TRADE PRACTICES WITH RESPECT TO PATENT AND KNOW-HOW LICENSING ARRANGEMENTS (Feb. 15, 1989), reprinted in Preston Moore, Antitrust Aspects of Technology Exploitation in Japan, in PRACTICING LAW INSTITUTE, PATENT ANTITRUST 629, 646 (1989) and in Roger D. Taylor et al., A Comparison of International Intellectual Property Licensing Guidelines in the United States and Japan, 9 PAC. BASIN L.J. 104, 142 (1991)(the "*1989 Guidelines*").

170 This and certain other of the prohibitions remained inconsistent with U.S. enforcement practice. See G. Chin Chao, Conflict of Laws and the International Licensing of Industrial Property in the United States, the European Union, and Japan, 22 N.C.J. INT'L L. & COM. REG. 147, 180 n. 91 (1996).

requiring distribution through the licensor or its designee, input tying, and restrictions on export prices, volumes and distribution channels.[171]

## J. The 1990s to the Present: Liberalization, Recession and Continuing Challenges from New Technologies

### A. Continuing Competition Enforcement Efforts and the *1999 Guidelines*

#### 1. JFTC Enforcement in a Difficult Decade

The 1990s has been called Japan's "Lost Decade," during which the country's GDP grew at an average rate of only 1.6 percent, less than half the 3.8 percent average of the 1980s.[172] During this difficult period, the JFTC continued to focus on prosecution of cartels and bid-rigging activities during the past decade. These enforcement actions, however, have focused almost exclusively on domestic cartels at a time of large successful investigations of international cartels in the U.S., EU and elsewhere. One JFTC Commissioner is "frustrated by the lack of enforcement of the [AMA] regarding international cartels involving Japanese firms." He laments that "[a]lthough international cartels have been exposed in the U.S. and the EU, and Japanese firms have paid huge penalties, the [JFTC] has been unable to collect enough evidence from its investigations of the Japanese firms involved to indict them for violations of the [AMA] and so has been unable to make them pay surcharges."[173]

In 1998, the JFTC issued its M&A Guidelines, intended to "increase the ability of companies to foresee enforcement and ensure transparency of enforcement of the [AMA] by the [JFTC] by . . . clarifying the types of M&As [that may] substantially [] restrain competition in a particular field of trade under Chapter 4 of the [AMA] . . ."[174] The Commission also announced a new notification system for mergers and acquisitions by

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171 See Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 724-728 (2001).

172 The Office of the U.S. Trade Representative, THE 2002 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS, 203 (2002), available at http://www.ustr.gov/reports/nte/2002/japan.PDF.

173 Shogo Itoda, Commissioner, Japan Fair Trade Commission, Competition in Japan's Telecommunication Sector: Challenges for the Japan Fair Trade Commission, October 11, 2001, at 5, available through http://www.jftc.go.jp.

174 Japan Fair Trade Commission, GUIDELINES FOR INTERPRETATION ON THE STIPULATION THAT "THE EFFECT MAY BE SUBSTANTIALLY TO RESTRAIN COMPETITION IN A PARTICULAR FIELD OF TRADE" CONCERNING M&AS, December 21, 1998 (the "*M&A Guidelines*"), at 1, available at http://www.jftc.go.jp/e-page/guideli/maGL.pdf.

companies outside Japan,[175] that explains the foreign filing requirements for non-Japanese parties to mergers and acquisitions, under the recent amendments to the AMA.

Despite the reduction in personnel of many government agencies as part of the general deregulation policy, the JFTC has consistently increased its staff in recent years. The total number of JFTC officials in 1998, 1999 and 2000 were, respectively 552, 558 and 564, with 571 listed in the draft budget for 2001. The JFTC budget grew from ¥ 5.622 million in 1998, to ¥ 5.781 million in 1999, and to ¥ 5.902 million in 2000. The JFTC budget for 2001 was ¥ 6.036 million.[176] The agency has announced that its current priorities for investigation include: "(1) hard core cartels such as price-fixing and bid-rigging; (2) blocking of market entry and excluding competitors; (3) unfair trade practices in the distribution sector; (4) non-governmental restrictions in the private sectors . . . ; and (5) international cases."[177] The JFTC announced planned guidelines on business alliances, based on fears of anticompetitive impact from long-term alliances.[178] The civil remedy system was improved by amending the AMA, effective April 1, 2001, to allow private parties to file lawsuits seeking injunctive relief against parties employing unfair trade practices (but not against unreasonable restraints of trade or private monopolization).[179]

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175 Japan Fair Trade Commission, NOTIFICATION SYSTEM CONCERNING M&AS BY COMPANIES OUTSIDE JAPAN, available at http://www.jftc.go.jp/e-page/guideli/index.html.

176 Japan Fair Trade Commission, RECENT ACTIVITIES OF THE FTC, June 2001, 15 (all years refer to fiscal years), available through http://www.jftc.go.jp. See also Shogo Itoda, Commissioner of Japan Fair Trade Commission, Yesterday, Today and Tomorrow: Competition Policy of Japan, presented at Chatham House, London, UK (Feb. 22, 2000), at 3-4 (discussing the increase in the JFTC's resources), available at http://www.jftc.go.jp/e-page/speech/20000222.htm.

177 See Akio Yamada, Secretary General of the Japan Fair Trade Commission, Competition Policy in the Future, presented before the American Chamber of Commerce in Japan (Feb. 2, 2001), at 2, available through http://www.jftc.go.jp/. See also Japan Fair Trade Commission, PROMOTION OF REGULATORY REFORM AND THE FTC'S POSITION ON COMPETITION POLICY – AT THE TIME OF THE THREE YEAR PROGRAM FOR THE PROMOTION OF REGULATORY REFORM, March 30, 2001, available through http://www.jftc.go.jp (containing enforcement statistics for the 1998-2000 fiscal years); Japan Fair Trade Commission, LIST OF CASES SUBJECT TO LEGAL ACTIONS IN FY 2000, as of March 31, 2001, available at http://www.jftc.go.jp/e-page/recent/legal.html.

178 Japan's Trustbuster to Map Up Guideline on Biz Tie-Ups, JIJI PRESS TICKER SERVICE, February 7, 2002 (a JFTC survey indicates that about 80 percent of Japanese firms have some form of business tie-up with other companies). This initiative stemmed from Japan Fair Trade Commission, STATE OF CORPORATE GROUPS IN JAPAN, the 7th Survey Report, May 18, 2001, available through http://www.jftc.go.jp (including statistics on cross-ownership within the six major corporate groups).

179 ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 69 (authored by Junji Masuda)(H. Stephen Harris, Jr. ed., 2001); Japan Fair Trade Commission, RECENT ACTIVITIES OF THE FTC, June 2001, at 7, available through http://www.jftc.go.jp.

### 2. Effects of the *1989 Guidelines*

The JFTC apparently reduced its enforcement activities somewhat from 1989 to 1999, the period during which the *1989 Guidelines* were in force.[180] Changes to the JFTC administrative rules during this time reduced the number of obligatory international agreement filings, and the filing system was abolished altogether by the Diet in 1997.[181] But it also seems likely, given the policy shift evidenced by the guidelines, that the apparent reduction in enforcement activities concerning IP licensing resulted largely from the JFTC's new policies, including greater deference to the parties negotiating the license and a desire to promote technology licensing. These policies are broadly consistent with those pursued by U.S. agencies during the same period.[182] Still, the differences resulted in calls for a U.S.-led effort to harmonize the two countries' patent licensing guidelines.[183]

### 3. The 1997 Amendment to the AMA

Article 9 of the AMA was amended in 1997, including a new prohibition on holding companies with "excessive concentration of economic power." The amendment also abolished the notification system for international contracts in recognition of the globalization of economic activities and in order to reduce burdens on business.[184]

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[180] Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 728-731 (2001)(concluding that enforcement has decreased, but noting the difficulty of judging the level of enforcement due to the way in which JFTC activity is reported and the likelihood that much of the enforcement is through unreported administrative guidance). For enforcement statistics, see Tadayoshi Homma, Commissioner, Japan Fair Trade Commission, "Where Do We Go From Here?" presented at the ABA Advanced International Cartel Workshop, New York, NY (Feb. 15-16, 2001)(1999 statistics), available through http://www.jftc.go.jp/.

[181] Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 730 (2001).

[182] Though Japan took longer to abandon its 1968 black list than did the U.S. authorities to abandon their Nine No-No's, the less restrictive policies of the JFTC preceded the promulgation of its *1989 Guidelines*. See Michael McAbee, Fair Trade Guidelines for Technology Licenses, 11 E. ASIAN EXEC. REP. 20 (1989)(JFTC enforcement had been gradually liberalizing before the issuance of the 1989 Guidelines).

[183] See Nhat D. Phan, Leveling the Playing Field: Harmonization of Antitrust Guidelines for International Patent Licensing Agreements in the United States, Japan and the European Union, 10 AM. U.J. INT'L L. & POL'Y 447, 479 (1994).

[184] Japan Fair Trade Commission, RECENT ACTIVITIES OF THE FTC, June 2001, 4-5 available through http://www.jftc.go.jp.

### 4. The *1999 Guidelines*

In 1999, the JFTC issued the current set of *Guidelines for Patent and Know-How Licensing Agreements Under the Antimonopoly Act*,[185] which superseded the *1989 Guidelines*. The changes reflected by the *1999 Guidelines* are incremental compared to the significant policy shift instituted through the *1989 Guidelines*, but generally reflect continuing liberalization. Like their immediate predecessor, the *1999 Guidelines* continue the black, grey and white lists, but add an additional classification of restrictions, such as post-expiration restrictions on the use of competing goods or technologies, that were previously black-listed but are now subject to a strict sub-species of the rule of reason, under which such restraints are deemed highly likely to be found unlawful after inquiry. One commentator has deemed these the "dark grey" list.[186] The dark grey list includes three types of restrictions that were on the black list under the *1989 Guidelines*: (a) restrictions on the use of, or obligations to pay royalties for, an expired publicly known patent or know-how; (b) restrictions on the licensee's research and development; and (c) certain exclusive grantbacks.

The new guidelines are more expansive in their coverage, being applicable (despite the title) not only to patent and know-how licenses, but "*mutatis mutandis* to other forms of intellectual property to the extent possible on the basis of the nature of these rights."[187] In addition, the *1999 Guidelines*, unlike earlier guidelines,[188] expressly apply both to unreasonable restraints of trade and monopolization, as well as unfair trade practices which was the only type of violation to which the earlier versions expressly applied.[189]

The text of the *1999 Guidelines* is significantly longer than the 1989 version, including a detailed discussion of the JFTC's analysis of various issues, including, for example, relevant market definition. The *1968 Guidelines* contained no reference to relevant markets and the *1989 Guidelines* made only passing reference to the concept in the context of applying the rule of reason. The *1999 Guidelines* make clear that product

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185 Japan Fair Trade Commission, GUIDELINES FOR PATENT AND KNOW-HOW LICENSING AGREEMENTS UNDER THE ANTIMONOPOLY ACT (Jul. 30, 1999), available at http://www.jftc.go.jp/e-page/guideli/patent99.htm (the "*1999 Guidelines*").

186 Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 736 (2001).

187 *1999 Guidelines*, Part 1, § 3(1). In contrast, the *U.S. IP Guidelines* apply only to the licensing of patents, copyrights, trade secrets, and know-how. See U.S. Department of Justice and Federal Trade Commission, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 1 (1995)(the "*U.S. IP Guidelines*").

188 The 1989 Guidelines hinted that they "could" be applied to monopolistic activities and unreasonable restraints of trade, but did not include those within their express purposes. See *1989 Guidelines* Preamble § 6.

189 *1999 Guidelines*, Part 3.

market definition for technology licenses will use the same general approach applicable to markets for goods or services. Such a market definition will encompass products that have a similar function or use. The guidelines note that the JFTC may consider the effects of technology licenses in markets for the licensing of technology, for goods embodying such technology, and for inputs used in the manufacture of such goods.[190]

The JFTC's analysis of licensing clauses under the *1999 Guidelines* begins with the central issue created by AMA § 23: Is the conduct an "act recognizable as an exercise of [intellectual property] rights?"[191] If it is an "exercise of rights," the JFTC proceeds to ask whether it runs counter to the purposes of the intellectual property laws.[192] Exercises of rights that do not run counter to the IP laws' purposes are statutorily exempt from the application of the AMA under Section 23. If, however, the conduct either (i) is not an exercise of an intellectual property right; or (ii) runs counter to the purposes of the IP laws, the conduct is not exempt and is subject to scrutiny, as with any other conduct, to determine whether it constitutes monopolization, an unreasonable restraint of trade, or an unfair trade practice under the AMA.[193]

The analysis thus proceeds to categorize the conduct within the rubric of the white, grey, "dark grey" and black lists. Restrictive clauses on the white list, such as non-exclusive grantback provisions or territorial restraints within Japan, are exempt because they are "considered to have a negligible effect on competition."[194] Importantly, the *1999 Guidelines* leave only two categories of licensing restraints on the "quasi-*per se*" black list: resale price maintenance[195] and agreements to restrict sale prices.[196] The remainder are either on the presumptively lawful white list or subject to two levels of scrutiny under the rule of reason.

In addition, the guidelines prohibit, as unreasonable restraints of trade, certain types of patent pools and cross-licenses among competitors where such restraints will substantially reduce competition. Prohibited restrictions include mutual restrictions on sale prices, sales volumes, manufacturing volume, sales outlets, sales territories, fields of

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190 *1999 Guidelines* Part 1 § 2(2). The *1999 Guidelines* do not expressly recognize innovation markets.

191 Id. art 2 § 2.

192 Id.

193 Id. art 2 § 3. See Joshua A. Newberg, "Technology Licensing Under Japanese Antitrust Law," 32 LAW & POL'Y INT'L BUS. 705, 734-75 (2001).

194 *1999 Guidelines* Part 1 § 2(c).

195 Id. Part 4 § 5(2)(a).

196 Id. Part 4 § 5(2)(b).

research and development, licensing to third parties or technology that may be used by the parties.[197]

The guidelines also prohibit, as unlawful private monopolization, exclusionary licensing conduct, including concentrations of patents, cross-licensing and patent pools, and refusals to license by a dominant firm, or a dominant combination of firms, that effectively exclude new entrants or substantially impede the functioning of existing competitors.[198] A "concentration" or accumulation of patents be unlawful where the IP portfolio is so broad that it makes it difficult for other firms "to conduct business activities in this particular product field" without a license. Refusals to license or enforcement through patent suits, in such circumstances will violate the AMA.[199] The guidelines also generally prohibit anticompetitive conduct that deprives competitors of reasonable access to intellectual property that has become an industry standard.[200]

Under the *1999 Guidelines*, licensing provisions that may be deemed an unfair trade practice are separated into four categories: (a) restrictions related to the scope of licensing; (b) restrictions accompanying the license; (c) restrictions regarding the manufacture of products embodying the patented technology; and (d) restrictions related to the sale of such products.[201] Restrictions falling within each of these groups are then subdivided into the white, grey, dark grey and black lists.

Restrictions on the scope of licensing are also divided into four categories: (a) separate licensing of rights to manufacture, use or sell products embodying a patented invention; (b) limitations on the length of a license during the validity of owner's IP rights; (c) territorial restrictions; and (d) field of use restrictions. As under the *1989 Guidelines*, all such provisions fall within the exempted white list under the *1999 Guidelines*.[202]

## B. Developments in Japanese IP Law

### 1. TRIPs

The 1992 establishment within the WTO framework of the multilateral Agreement on Trade Related Aspects of Intellectual Property (TRIPs)[203] is the "largest

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197 Id. Part 3 §§ 2(1) and (2).

198 Id. Part 3 §§ 3(1) – (3).

199 Id. Part 3 § 3(2).

200 Id. Part 3 § 3(3).

201 Id. Part 4 §§ 2-5.

202 Id. Part 4 §§ 2(2) – (5).

203 Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Dec. 15, 1993, 33 I.L.M. 81 (1994).

and most ambitious attempt to harmonize intellectual property rights on a world scale."[204] TRIPs, however, does not require WTO members to regulate licensing transactions to protect competition, but expressly recognizes the power of each state to take measures to redress abuses of intellectual property rights that harm competition in its markets.[205] Japanese intellectual property laws substantially comply with the standards mandated by TRIPs.[206]

### 2. The 1994 Japan-U.S. Patent Agreements

In 1994, the U.S. and Japan signed two bilateral agreements by which the two nations sought to resolve their long-standing disputes over patent law and enforcement.[207] The accords followed heavy lobbying by U.S. companies who argued that the Japanese patent system was discriminatory and ineffective.[208] In the Mutual Understanding, Japan agreed to (1) allow non-Japanese to file patent applications in English with a following translation; (2) permit the correction of translation errors from the English to the Japanese; and (3) permit the JPO to charge reasonable fees for those services. The U.S. agreed to change the term of a patent from seventeen years to a term of twenty years, starting with the date of filing of a U.S. application.[209]

The Patent Systems Agreement provides that the JPO would (1) end its practice of permitting oppositions prior to issuance of patents; (2) accelerate the examination process; and (3) cease requiring dependent compulsory licenses from non-Japanese inventors to Japanese competitors. In exchange, the U.S. Patent and Trademark Office agreed to (1) publish all pending applications within eighteen months after filing;[210] and

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[204] Paul Demaret, The Metamorphoses of the GATT: From the Havana Charter to the World Trade Organization, 34 COLUM. J. TRANSNAT'L L. 123, 162 (1995). See also Peter M. Gerhart, Reflections: Beyond Compliance Theory – TRIPS as a Substantive Issue, 32 CASE W. RES. J. INT'L L. 357 (2000)(arguing that acceptance of the substantive validity of TRIPs will "go a long way toward internalizing norms surrounding rights and property that allow intellectual property systems to rely on selfenforcement to bring about compliance.")

[205] TRIPs, art. 40(2), 33 I.L.M. at 99.

[206] Mitsuo Matsushita, 1992 COLUM. BUS. L. REV. 81, 86 (1992).

[207] JAPAN-U.S.: MUTUAL UNDERSTANDING ON PATENTS, Jan. 20, 1994, 33 I.L.M. (1994)(the "Mutual Understanding"); and JAPAN-U.S. PATENT SYSTEMS AGREEMENT (the "Patent Systems Agreement"), Aug. 16, 1994, U.S. Comm. Dept. (together, the "1994 Patent Agreements"). See also Japan-United States: Exchange of Letters Containing Patent Systems Agreement, Aug. 16, 1994, 34 I.L.M. 121 (1995).

[208] See Stephen Lesavich, The New Japan-U.S. Patent Agreements: Will They Really Protect U.S. Patent Interests in Japan?, 14 WIS. INT'L L.J. 155 (1995).

[209] Id. at 157.

[210] See generally Paul Gibbons, The Application Publication Dilemma: Should the United States Publish Patent Applications Eighteen Months After Filing to Accommodate International Patent Harmonization?, 20 SUFFOLK TRANSNAT'L L. REV. 449 (1997); James E. Hudson, The U.S.-Japan

(2) revise reexamination procedures.[211] Commentators hailed the 1994 Patent Agreements, but stressed the importance of U.S. companies spending the time and resources needed to understand the Japanese patent system if they sought to obtain meaningful protection of their patents in Japan.[212]

Efforts to harmonize and streamline international patent systems have continued through the "Trilateral Offices" (the USPTO, the JPO and the European Patent Office) facilitated by WIPO.[213] The 19th meeting of this group was held in November, 2001 and focused on such issues as electronic filing of patent applications, a protocol for adding new members to the network and ways to cope with the burgeoning workload of patent examination. In the area of biotechnology, the group also agreed to investigate a "mechanism to exchange priority documents for biological sequences with a human readable certification and to explore the possibility of creating a unified database approach for storage of sequence data."[214]

3. Further Strengthening of the Japanese Patent Act

Attributing, in part, the quick U.S. recovery from its recession in the late 1980s to the strong U.S. pro-patent policy[215] and U.S. legislation that encouraged technology transfers, Japan organized the Commission on Intellectual Property Rights in the Twenty-First Century. Its report, issued in 1997, emphasized the strengthening of intellectual property rights to stimulate the development of breakthrough technologies.[216] In response to publicly expressed concerns about the weakness of Japanese patent protection, Japanese lower courts have recently interpreted patent claims more broadly,

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Agreement for Eighteen Month Publication of U.S. Patent Applications: How Should It Be Implemented?, 5 D.C.L. J. Int'l L. & Prac. 87 (1996).

211 Stephen Lesavich, The New Japan-U.S. Patent Agreements: Will They Really Protect U.S. Patent Interests in Japan?, 14 WIS. INT'L L.J. 155, 155-56 (1995).

212 Id. at 181.

213 The World Intellectual Property Organization ("WIPO"), established by and serving as the administrator of the Paris Convention for the Protection of Industrial Property, Sept. 5, 1970, 21 U.S.T. 1583, 828 U.N.T.S.

214 Japan Patent Office, Summary of Results of 19th Annual Trilateral Pre-Conference and Conference, November 5-9, 2001, San Francisco, California, available at http://jpo.go.jp/saikine/1312_027_summary.htm.

215 See generally Robert M. Sherwood, Intellectual Property Systems and Investment Stimulation: The Rating Systems in Eighteen Developing Countries, 37 IDEA 261, 351-52 (1997)(discussing Edwin Mansfield's groundbreaking empirical study on the importance of IP protection for the stimulation of foreign direct investment).

216 Commission on Intellectual Property Rights in the Twenty-First Century, TOWARD THE ERA OF INTELLECTUAL PROPERTY CREATION: CHALLENGES FOR BREAKTHROUGH (1997), available at http://www.jpo-meti.go.jp.

and adopted the doctrine of equivalents.[217] In 1998, effective 1999, the Diet amended the Patent Act to facilitate the recovery of lost profits and lower the burden of proof on causation.[218]

4. Proposed Amendments of the Patent and Trademark Laws

The JPO has released a Review of Patent Law and Trademark Law[219] explaining proposed legislation to clarify the patentability of software, despite the Patent Act's requirement that patentable inventions be "utilized as tangible items," and to clarify that "transmission of patented programs over the [internet] without approval" constitutes patent infringement.[220] The *JPO Review* also proposes to expand provisions for indirect infringement of patents, "to include providing [non-exclusive but important] parts with malicious intent (i.e., knowing that it will be incorporated into a patented invention for an infringing purpose)."[221] The JPO also proposes to amend the trademark Act to clarify that wrongful display of trademarks on internet sites constitutes trademark infringement.[222] The *JPO Review* also proposes to further harmonize Japan's patent examination procedures with international norms, by making application procedures "compatible with the PCT international application as well as applications of other advanced nations" and "extend[ing] the deadline of the submission of domestic documents for international applications to as long as 30 days."[223]

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217 See Toshiko Takenaka, Patent Infringement Damages in Japan and the United States: Will Increased Patent Infringement Damages Revive the Japanese Economy?, 2 WASH. U. J.L. & POL'Y 309, 310 (2000), citing Genentech Inc. v. Sumitomo Seiyaku K.K., 1586 Hanrei Jiho 117 (Osaka Koto Saibansho 1996). For an English translation and commentary on the case, see Toshiko Tanenaka, New Policy of Interpreting Japanese Patents: Osaka High Court Affirming Infringement of Genentech's t-PA Patents Under the Doctrine of Equivalents, 3-2 CASRIP NEWSL. 3 (1996), available at http://www.law.washington.edu/casrip/newsletter/newsv3i2jp.html.

218 Tokkyo Ho [Patent Act], Law No. 51 of 1998. See generally Toshiko Takenaka, Patent Infringement Damages in Japan and the United States: Will Increased Patent Infringement Damages Revive the Japanese Economy?, 2 WASH. U. J.L. & POL'Y 309 (2000).

219 Japan Patent Office, Industrial Property Legislation Office, REVIEW OF PATENT LAW AND TRADEMARK LAW (April 26, 2002) (the "*JPO Review*"), available at http://www.jpo.go.jp/infoe/patent_law.htm.

220 Id. at 1.

221 Id. at 2. Regarding U.S. concerns about U.S. protection against indirect infringement, see Anna M. Budde, Liability of a Foreign Manufacturer Using a Patented Process for Indirect Infringement, 42 WAYNE L. REV. 291, 304 (1995)(quoting a Senate Report stating that the U.S. patent law provided inadequate protection by failing to protect against the importation and subsequent use or sale of products made abroad without authorization, which use a patented process, in contrast to such protection that is available under the laws of Japan and other countries).

222 Id.

223 Id.

### 5. The JPO Evaluative Indexes for Technology Transfer

In December, 2000, the JPO issued Evaluative Indexes for Technology Transfer, intended to promote technology transfers by evaluating the transfer potential of patents and the business potential of patented inventions.[224] The indexes are composed of five categories, including whether additional development is required for commercialization, possible emerging substitutes and the anticipated profitability of the invention.[225]

## C. Administrative Guidance

The early 1990s saw an increase in criticism of the lack of transparency in the Japanese practice of administrative guidance, or *gyosei shido*.[226] Administrative guidance does not have the force of law, and is technically a non-binding, non-juristic act. The application of administrative guidance is distinct from informal agency consultation, and may result in agency requests for action that, while not compulsory *de jure*, are rarely ignored.[227] The close relationship between business and government that perpetuates the administrative guidance system, and in turn is perpetuated thereby, is a deeply rooted tradition.[228] As one respected expert has stated:

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224 Japan Patent Office, PATENT-RELATED EVALUATIVE INDEXES (FOR TECHNICAL TRANSFER), December, 2000, available at http://www.jpo.go.jp/saikine/tt1302-072.htm.

225 Id. at 2.

226 See generally Yoriaki Narita, Administrative Guidance, 2 LAW IN JAPAN 45-60, 64-68, 70-79 (1968), reprinted in Hideo Tanaka, THE JAPANESE LEGAL SYSTEM, 353-404 (1976); Michael K. Young, Judicial Review of Administrative Guidance: Governmentally Encouraged Consensual Dispute Resolution in Japan, 84 COLUM. L. REV 923 (1984). For an authoritative history on Japan's adoption and adaptation, in the first millennium, of Chinese law and administrative structures, see G.B. Sansom, JAPAN, A SHORT CULTURAL HISTORY, ch. VIII (1952). See also John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 29-31 (1991)(describing the assimilation of the Chinese merit-based model of bureaucracy into the preexisting family-based government structures in Japan).

227 Historically, persuasion used in conjunction with administrative guidance has occasionally been coercive. In 1952, when MITI informally advised cotton manufacturers to reduce production by forty percent, MITI made clear that companies rejecting this guidance might not receive foreign currency allocations for the following month's supply of raw cotton. Chalmers Johnson, MITI AND THE JAPANESE MIRACLE, 224-25 (1982).

228 See Shigenori Matsui, Lochner v. New York in Japan: Protecting Economic Liberties in a Country Governed by Bureaucrats, in LAW AND TECHNOLOGY IN THE PACIFIC COMMUNITY 199, 299 (Philip S. C. Lewis ed., 1994)("Whereas in the United States the governmental regulation tends to be deemed justified only where the market failure or malfunction exists, it tends to be deemed justified in Japan even when non market failure or malfunction exists. . . . The role of the Government as a promoter and protector of the economy has long been accepted in Japan."); Daniel K. Tarullo, Norms and Institutions in Global Competition Policy, 94 A.J.I.L. 478, 484 (2000)(The United States, in its unsuccessful WTO photographic film case and elsewhere has acknowledged that "the history of Japanese industry reflects a complex interaction of governmental and private conduct that has apparently foreclosed important distribution channels to foreign companies, and thus denied market access in Japan.")

> What makes the role of the bureaucracy distinctive in Japan is neither its influence nor its size. It is instead the conjunction of broad, seemingly limitless authority without, however, even a relatively normal degree of coercive legal powers. That most assessments of the Japanese bureaucracy fail to convey its role accurately can best be explained by fundamental differences in language and conceptual premises.
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> Behind the appearance of official direction and control is a process of governance by negotiation in which the state must by necessity bargain in both the making of policy and enforcement. In such circumstances, distinctions between "public" and "private" blur and "regulation" takes on new meaning, as those apparently subject to governmental direction gain a significant and often determinative voice in the process of formulating and implementing policy. Unlike expressions of consent expressed through formal electoral and similar institutionalized channels in other industrial democracies, the consent of those governed in Japan is less the product of intentional political choice than necessity born of Japan's unique institutional history.[229]

This informal enforcement technique has raised concerns that it appears to permit Japanese officials significant latitude in choosing which policies to enforce, diluting consistent enforcement of the law and possibly resulting in decisions not grounded in, or even contrary to, applicable law.[230] To address these concerns, at least in part, in the context of administrative guidance in competition matters, the JFTC promulgated its *Guidelines on Administrative Guidance under the Antimonopoly Act* in 1994.[231]

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[229] John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 143-44 (1991).

[230] See John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 163 (1991)(describing a series of antitrust decisions from the 1950 Hokkaido Butter case through the 1980 Oil Cartel cases to illustrate MITI's use of administrative guidance to "encourage business enterprises to engage in prohibited anticompetitive conduct for which MITI had little or no statutory authority."); Meryll Dean, Administrative Guidance in Japanese Law: A Threat to the Rule of Law, 1991 OVERSEAS BUS. L. 398 (July, 1991), reprinted in COMPARATIVE LAW, LAW AND THE LEGAL PROCESS IN JAPAN (Kenneth L. Port ed., 1996); Ken Duck, Now That the Fog Has Lifted: The Impact of Japan's Administrative Procedures Law on the Regulation of Industry and Market Governance, 19 FORDHAM INT'L L.J. 1686, 1756-57 (1996)(suggesting that the Administrative Procedures Act "addresses the practice of purposely keeping vague the contents, purpose, and relevant ministry involved with administrative guidance" and "requires government agencies to issue guidance only within their jurisdiction" thereby curtailing "arbitrary enforcement" and "facilitates companies' efforts to . . . improve competitiveness"). See Gyosei Tetsuzuki Ho (Administrative Procedures Act), Law No. 88, enacted November 12, 1993.

[231] Japan Fair Trade Commission, GUIDELINES CONCERNING ADMINISTRATIVE GUIDANCE UNDER THE ANTIMONOPOLY ACT, June 30, 1994, available at http://www.jftc.go.jp/e-page/guideli/administrativeGL.pdf.

## D. Industrial Policy

Japan's continued reliance on strong, centralized government planning in certain industries, or industrial policy, has also drawn strong criticism as being inconsistent with free competition and fair trade, including in high technology industries.[232] Sometimes defined as "those policies designed to cope with the market failure in the allocation of resources,"[233] industrial policy in Japan has shifted from a focus in the 1950s and 1960s on heavy industries such as steel and automobile manufacture, to technology-intensive industries such as computers and semiconductors.[234] Some commentators believe that U.S. companies have formed alliances analogous to Japan's "corporatist arrangements between industry, banks, and government, . . . within the limits of more vigorously enforced American antitrust laws."[235] The JFTC's enforcement of the AMA against the oil cartels, however, has made "MITI . . . come face-to-face with the fact that it must take into consideration the impact of the [AMA] when enforcing industrial policy measures and must avoid using 'cartels' as tools for implementing industrial policy goals."[236]

## E. New and Rapidly Changing Technologies

### 1. Software

The emergence of new technologies continues to present novel challenges for the JFTC, and for competition enforcers worldwide. The increasing importance and concentration of software markets has made this sector a vital concern and a new set of challenges for both U.S. and Japanese enforcement agencies.[237] Weaker than normal IP

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232 See generally JAPAN'S HIGH TECHNOLOGY INDUSTRIES: LESSONS AND LIMITATIONS OF INDUSTRIAL POLICY (Hugh Patrick, ed., 1986)(including an essay by Kozo Yamamura that weighs the antitrust implications of cooperative research projects supported by the Japanese government).

233 Mitsuo Matsushita, The Intersection of Industrial Policy and Competition: The Japanese Experience, 72 CHI-KENT L. REV. 477, 478 (1996), quoting Ryutaro Komiya et al., THE INDUSTRIAL POLICIES OF JAPAN (*Nihon no Sangyo Seisaku*) 40 (1984).

234 Id. at 479-80.

235 Marc S. Ehrlich, Towards a New Dialogue Between International Relations Theory and International Trade Theory, 2 UCLA J. INT'L L. & FOR. AFF. 259, 299 (1998). See also James C. Miller III, Thomas F. Walton, William E. Kovacic and Jeremy A. Rabkin, Industrial Policy: Reindustrialization Through Competition or Coordinated Action, 2 YALE J. ON REG. 1, 37 (1984)(concluding that "[e]fforts to strengthen the U.S. economy by creating a central administrative body to plan and coordinate a national industrial policy promise to be either ineffective or a cure worse than the perceived disease").

236 Mitsuo Matsushita, The Intersection of Industrial Policy and Competition: The Japanese Experience, 72 CHI-KENT L. REV. 477, 480 (1996).

237 See generally Symposium, Beyond Microsoft: Antitrust Technology, and Intellectual Property, 16 Berkeley Tech L.J. 525 (2001)(discussing issues presented to U.S. enforcement agencies by new technologies, and the effect of antitrust and intellectual property laws on innovation); Joel I. Klein and Preeta Bansal, International Antitrust Enforcement in the Computer Industry, 41 VILL. L. REV. 173 (1996);

protections for software are seen generally to address concerns about the capacity for software to be used anticompetitively,[238] to take into account network effects,[239] and to increase the competitiveness of U.S. industry.[240] The application of traditional intellectual property protection for software has been predicted to lead to "cycles of under- and overprotection."[241] Some regard the conclusion that software should be copyrighted was a "prodigious conceptual blunder"[242] Japanese IP protection of software is seen as more limited than that of the U.S.[243] which some regard as a threat to U.S. software firms.[244]

The JFTC has organized a select group of attorneys, industry representatives and academic experts into a Study Group on Software and Competition Policy that began meeting in August, 2001 to seek ways "to ensure fair and free competition in the software

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Mark S. Lee, Japan's Approach to Copyright Protection for Computer Software, 16 LOY. L.A. INT'L & COMP. L.J. 657 (1994).

238 Maureen A. O'Rourke, Toward a Doctrine of Fair Use in Patent Law, 100 COLUM. L. REV. 1177, 1211-13 (2000)(proposing fair use exception for software application programming interfaces).

239 Crystal D. Talley, Japan's Retreat from Reverse Engineering: An Unnecessary Surrender, 29 CORNELL INT'L L.J. 807, 809 (1996)("The scope of protection to be given to computer software is one of the most difficult in intellectual property. . . . [P]rogrammers seeking to create software that is most useful to most computer users must be able to ascertain the specifications of other programs with which the software will operate by decoding the programs as they are released to the public.").

240 See Rafael X. Zahralddin, The Effect of Broad Patent Scope on the Competitiveness of United States Industry, 17 DEL. J. CORP. L. 949 (1992)("The new world market and the strategy of U.S. foreign competitors, especially the Japanese and the emerging European Community . . . dictates against patents.")

241 Pamela Samuelson, Randall Davis, Mitchell D. Kapor & J.H. Reichman, A Manifesto Concerning the Legal Protection of Consumer Programs, 94 COLUM. L. REV. 2308, 2356 (1994).

242 Lloyd L. Weinreb, Custom, Law, and Public Policy: The INS Case as an Example for Intellectual Property, 78 VA. L. REV. 141, 145 (1992)("The conclusion of the National Commission on New Technological Uses of Copyrighted Works that software should be protected by copyright, which Congress swallowed whole, was a prodigious conceptual blunder, which the United States then foisted on Japan and the rest of the world.") See also John Espenshade Titus, Right to Reverse Engineer Software: Is Japan Next and Does It Really Matter?, 19 N.C.J. INT'L L. & COM. REG. 491 (1994).

243 See generally Jack M. Haynes, Computer Software: Intellectual Property Protection in the United States and Japan, 13 J. MARSHALL J. COMPUTER & INFO. L. 245, 261 (1995); Tsuneo Matsumoto, Article 2B and Mass Market License Contracts: A Japanese Perspective, 13 BERKELEY TECH. L.J. 1283 (1998)(discussing Japan's considerations of providing for shrinkwrap and mass market software licenses). But see Jonathan Band and Masanobu Katoh, INTERFACES ON TRIAL: INTELLECTUAL PROPERTY AND INTEROPERABILITY IN THE GLOBAL SOFTWARE INDUSTRY (1995)(finding no fundamental differences in IP treatment of interface specifications by the U.S., Japan and the European Union).

244 See Hillary A. Kremen, Caveat Venditor: International Application of the First Sale Doctrine, 23 SYRACUSE J. INT'L L. & COM. 161 (1997).

market" by "positively apply[ing] the [AMA] to the software trade."[245] The interim report of the group emphasizes the growing importance of software trade and examines types of anticompetitive conduct involving software that may violate the AMA. These include discriminatory treatment of and refusals to deal in the provision of technological information, refusals to provide technological information for the addition of new functions, unjust accumulation of technologies independently developed by hardware and application software makers, and unjust expansion of obligations to protect secrecy.[246] The report also examines problematic software licensing restraints, and aspects of software that may fall under the Copyright Act or the Patent Act.[247] The report finds that "whether entrepreneurs' specific acts . . . violate the [AMA] should be judged on a case-by-case basis in consideration of the magnitude of the effect of those acts on competition in the relevant markets."[248]

### 2. Databases

Databases present another new challenge. Typically, databases fail the requirement of originality or creativity. Ironically, however, unusually creative databases ("information about information") can exceed the value of the information itself.[249] Article 12(1) of the Copyright Act protects compilation works (*henshu-chosakubutsu*), if they reflect creativity in the selection or arrangement of the material. Similarly, under the 1986 amendment to the Copyright Act, databases are protected if they evidence creativity. "However, the materials of which they are composed may not be works of authorship and no other special laws regulate the extraction of data from a database."[250] A Japanese court decision seems to make clear that copyright protection is not possible for noncreative databases.[251]

### 3. The Internet

Widespread use of the internet reached Japan somewhat later than the U.S., but has firmly taken root. The ease with which products and services are transmitted across borders, present new enforcement issues for competition agencies, though the ease with

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245 Study Group on Software and Competition Policy, VIEWS ON SOFTWARE LICENSING AGREEMENTS, ETC. UNDER THE ANTIMONOPOLY ACT, AN INTERIM REPORT OF THE STUDY GROUP ON SOFTWARE AND COMPETITION POLICY, March 2002 (Provisional), available through http://jftc.go.jp/.

246 Id. Parts 1 and 2.

247 Id. Part 3.

248 Id. Part 1, at 4.

249 Michael J. Bastian, Protection of "Noncreative" Databases: Harmonization of United States, Foreign and International Law, 22 B.C. INT'L & COMP. L. REV. 425, 426 (1999).

250 Id. at 433-34.

251 Id. at 434 (discussing the decision in Sakimura v. Yashiro, the "Telephone Directory case").

which web-based technologies can bring buyers and sellers together and exponentially expand the availability of useful information to consumers are seen by the JFTC and U.S. agencies alike as generally procompetitive. "Promotion of the IT revolution" has been cited as one of the four current "tasks" of Japanese competition policy[252] and the establishment of a high-speed network infrastructure as "the most important task for the Government of Japan as a whole."[253] Issues of privacy, protection of intellectual property rights and supporting connectivity and interoperability all raise difficult issues with regard to intellectual property protection of information and business methods used on the internet.[254] Inconsistent approaches of various jurisdictions are a particularly troubling problem in borderless cyberspace.[255] Commentators have expressed fears that competition is likely to break down in cyberspace under the discordant existing systems.[256] As two jurisdictions representing a large share of internet users, how these questions are addressed by the U.S. and Japan will help shape international norms.

### 4. New Pharmaceuticals

The 1990s and the first years of the new millenium have also seen concern engendered by the competitive (or anticompetitive) effects of intellectual property rights in drugs. Of particular concern in the U.S. has been automatic patent extensions granted under the Hatch-Waxman Act[257] and other stratagems for preventing a drug from coming "offpatent," including staggered patents on different aspects of a drug.[258] Compulsory

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252 Akio Yamada, Secretary General of the Japan Fair Trade Commission, Competition Policy in the Future, presented to the American Chamber of Commerce in Japan (Feb. 2, 2001), at 8, available through http://www.jftc.go.jp/.

253 Id. at 9.

254 See Henry M. Gladney, Digital Intellectual Property: Controversial and International Aspects, 24 COLUM. – VLA J.L. & ARTS 47 (2000)(discussing the "creeping extension of protection," a situation that is enough to warrant "precautionary alarm"); Hisanari Harry Tanaka, Post-Napster: Peer-to-Peer File Sharing Systems: Current and Future Issues on Secondary Liability Under Copyright Laws in the United States and Japan, 22 LOY. L.A. ENT. L. REV. 37 (2001).

255 See, e.g. Daniel J. Gervais, Transmissions of Music on the Internet: An Analysis of the Copyright Laws of Canada, France, Germany, Japan, the United Kingdom, and the United States, 34 VAND. J. TRANSNAT'L L. 1363 (2001).

256 See J.H. Reichman, Toward a Third Intellectual Property Paradigm: Legal Hybrids Between the Patent and Copyright Paradigms, 94 COLUM. L. REV. 2432, 2557-58 (1994)("The advent of information-based products has caught the world's intellectual property system unprepared. Although policymakers expect competition to solve most of the resulting problems, competition breaks down in key sectors of developed economies. In the past, competition presupposed both lead time and the practice of reverse engineering; the realities of innovation in the Age of Information cast doubt on the continued ability of pre-existing systems to function on this basis"; proposing a "quasi-liability regime that operates as a "portable" trade secrets law).

257 35 U.S.C. § 156(d)(5)(E)(i) (2000).

258 Lara J. Glasgow, Stretching the Limits of Intellectual Property Rights: Has the Pharmaceutical Industry Gone Too Far? 41 J.L. & Tech. 227 (2001). See also Symposium, Striking the Right Balance

licensing has been invoked by some developing countries to make life-saving drugs available to their citizens at affordable prices, raising concerns about a broader use of that remedy under TRIPs.[259] As a developed nation, Japan has seen no need to invoke such compulsory license provisions itself. However, it has been criticized for the perceived anticompetitive effects of its strict regulation of prices in the pharmaceuticals market,[260] and for the need to bring Japan's regulatory system for new drugs into greater conformity with the approaches of the U.S. and the EC.[261] Until recently, [262] Japanese court decisions diverged from U.S. law that permits experimental use (typically clinical studies) of patented pharmaceuticals by non-licensees aimed at expediting introduction of generic versions of those drugs.[263]

### 5. Biotechnology

The explosive growth of the U.S. biotechnology industry since 1990 has not been duplicated in Japan. This gap is attributed to "the inapplicability of Japanese manufacturing efficiencies, the lack of global reach relative to the United States drug companies, and the failure to attract top scientists to the [Japanese] industry."[264] Despite

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Between Innovation and Drug Price Competition: Understanding the Hatch-Waxman Act, 54 FOOD DRUG L.J. 187 (1999).

259 See Shanker A. Singham, Competition Policy and the Stimulation of Innovation: TRIPS and the Interface Between Competition and Patent Protection in the Pharmaceutical Industry, 26 BROOKLYN J. INT'L L. 363 (2000).

260 See, e.g., Patricia M. Danzon and Li-Wei Chao, Does Regulation Drive Out Competition in Pharmaceutical Markets?, 43 J. LAW & ECON. 311, 318 (2000)("[I]n Japan, the downward spiral [in prices of pharmaceuticals] results from superimposing regulation on a market with competition for physician demand. The lower the originator product's price when the patent expires, the lower the potential profit margin for a generic competitor pursuing a price competition strategy, and hence the less attractive is the market for competitive generic entry.")

261 See Rosemarie Kanusky, Pharmaceutical Harmonization: Standardizing Regulations Among the United States, the European Economic Community, and Japan, 16 HOUS. J. INT'L L. 665 (1994).

262 See John A. Tessensohn, Reversal in Fortune – Pharmaceutical Experimental Use and Patent Infringement in Japan 4 J. INT'L LEGAL STUD. 1, 31-33 & 46 (1998)(discussing the "generous" interpretation of the experimental use exception under the Patent Act to conclude that generic drug makers were not liable for patent infringement in two recent decisions by the Tokyo District Court, and noting that the U.S. pharmaceutical industry has "stressed that there should be a serious reformation of the Japanese healthcare system by . . . promoting innovation through market pricing, strengthened intellectual property protection, and appropriate fiscal policies . . . encouraging market competition through market pricing [and] providing unrestricted access to drugs through prescribing timely approval of new drugs, . . . .")

263 See William D. Christiansen II, Patent Term Extension of Pharmaceuticals in Japan: So You Say You Want to Rush that Generic Drug to Market in Japan . . . . Good Luck!, 6 PAC. RIM L. & POL'Y 613 (1997).

264 Alvin R. Chin, The Misapplication of Innovation Market Analysis in Biotechnology Mergers, 3 B.U. J. SCI. & TECH. L. 6 para. 41 (1997). According to one author, this may be due in part to limitations, which are sometimes fostered by government policy, on foreign academics' and scientists' participation in

the small market share of the industry garnered thus far by Japanese companies, interest in biotechnology is high in Japan, and there are calls for Japan to develop a bioethics policy and to use patent law to more effectively regulate biotechnological inventions.[265] As with other emerging technologies, there are concerns about consistent and appropriate intellectual property protection of biotechnology in the major industrialized jurisdictions.[266]

The practice of attempting to evade U.S. patent law for biotech products sold in the United States by moving production offshore was criticized, and resulted in calls for greater protection of U.S. biotechnology patents in Japan and Europe.[267] This practice subsided somewhat and some U.S. companies have terminated licensing agreements with Japanese companies.[268]

The broad availability of patent protection for biotech inventions in the U.S. and the limited nature of such protection in Japan and elsewhere has raised fears that Japanese and European companies will be empowered "to compete nationally against U.S.-based product inventions, while Japanese and European . . . companies can receive a patent monopoly in the United States."[269] Such concerns have led to calls for non-patentability of living matter, both to "promote an international patent system allowing U.S. companies to receive worldwide patent protection on their inventions . . . [and to] re-balance the scale of international competition between U.S. companies and European/Japanese companies."[270]

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scholarship and scientific inquiry in Japan. Ivan P. Hall, CARTELS OF THE MIND, JAPAN'S INTELLECTUAL CLOSED SHOP (1998).

265 See Craig M. Borowski, Human Cloning Research in Japan: A Study in Science, Culture, Morality and Patent Law, 9 IND. INT'L & COMP. L. REV. 505, 508-09 & 533-34 (1999).

266 See Jasemine Chambers, Patent Eligibility of Biotechnological Inventions in the United States, Europe and Japan: How Much Patent Policy is Public Policy?, 34 GEO. WASH. INT'L L. REV. 223 (2002); Henrique Freire de Oliveira Souza, Genetically Modified Plants: A Need for International Regulation, 6 ANN. SURV. INT'L & COMP. L. 129 (2000).

267 See Ann Sturtz Viksnins, Amgen, Inc. v. United States International Trade Commission: Designer Genes Don't Fit, 76 MINN. L. REV. 161, 191 n. 161 (1991)("While we do not believe that American biotech companies should get special protection against foreign competition, we do believe that our companies should be allowed to compete on a level playing field. Foreign companies should not be able to evade U.S. patent laws for products sold in the United States simply by moving production off-shore. And our companies should receive the same process patent protection that their competitors receive in Japan and Europe."), quoting 136 CONG. REC. E207 (daily ed., Feb. 7, 1990)(statement of Rep. Moorhead).

268 Akim F. Czmus, Biotechnology Protection in Japan, the European Community, and the United States, 8 TEMP. INT'L & COMP. L.J. 435, 452 (1994).

269 Michael North, The U.S. Expansion of Patentable Subject Matter: Creating a Competitive Advantage for Foreign Multinational Companies?, 18 B.U. INT'L L.J. 111, 134 (2000).

270 Id. at 138.

### 6. Telecommunications

During the 1990s, the JFTC proposed reorganization of the telecommunications monopoly, NTT, into multiple companies. While a reorganization was accomplished in 1999, the three resulting companies are all wholly owned subsidiaries of a holding company, resulting in no actual deconcentration.[271] In 2000, the U.S. and EU claimed that Japanese telecommunications connection fees were too high to admit meaningful foreign competition. These fees were set by NTT, which has a monopoly over regional networks and subscriber lines in Japan.[272] The JFTC resists negotiating specific reductions of these rates, but has announced an intent to use various means to encourage competition in the Japanese telecommunications market.[273] An official of the JFTC has indicated an intention to use the AMA to redress any future rejections of connections by NTT.[274] The JFTC has recently issued a public warning against NTT for its attaching strict conditions to allowing interconnection by firms seeking to offer DSL services in Japan.[275] The JFTC has also promulgated guidelines for the promotion of competition in telecommunications markets.[276]

## F. Effects of the Recession on Competition Policy

The recent recession in Japan has caused a reemergence of concerns about the potentially disruptive effects of competition enforcement. One JFTC Commissioner acknowledged concerns about the "political and social impact of competition policy," noting that "[i]t is claimed that competition policy could lead to increased unemployment and endanger incumbent industries and enterprises, including regional small and medium-sized ones and that political and social context generated by competition policy cannot be ignored."[277] The Commissioner recommended "increas[ing] national economic welfare by actively implementing competition policy on the one hand and . . . minimiz[ing] its negative impact on the other, by creating new

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271 Shogo Itoda, Commissioner, Japan Fair Trade Commission, Competition in Japan's Telecommunication Sector: Challenges for the Japan Fair Trade Commission (Oct. 11, 2001), at 2, available through http://www.jftc.go.jp/.

272 Id. at 1-2.

273 Id. at 2.

274 Id. at 3.

275 Id. at 4.

276 Japan Fair Trade Commission, GUIDELINES FOR PROMOTION OF COMPETITION IN THE TELECOMMUNICATIONS BUSINESS FIELD (Nov. 2001), available at http://www.jftc.go.jp/e-page/guideli/011130telecomGL.pdf.

277 Hisami Kurokochi, Commissioner of the Japan Fair Trade Commission, "The Relationship between Economic Development and Competition Policy," presented at the 6th Asian and Oceanic Antimonopoly Conf., Canberra, Australia (Nov. 16, 1999), at 3, available at http://www.jftc.go.jp/e-page/speech/kuro1999.htm.

industries, promoting job mobility and providing relief measures for the unemployed, as well as taking income reallocation policies to the extent permitted by social consensus."[278]

This period has also seen a resurgence in concerns about the proper relative priorities of competition policy, trade policy and industrial policy. The debate, generally, is between those who favor implementation of competition policy only "after achieving economic growth through industrial policy" and others who favor that "competition policy should be introduced after trade liberalization, which would realize economic growth."[279] One striking feature of this debate is that both sides seem to presume that implementation of competition policy must be deferred, either for implementation of industrial policy or trade liberalization. Another is that the existence of strong proponents of giving priority to industrial policy illustrate the continuing "distrust against foreign enterprises" that leads them to "believe that domestic enterprises commit themselves to the economic growth of the country, while multinational enterprises from developed economies could contribute to it to some extent but withdraw from the market once they regard it as unfavorable."[280] A JFTC Commissioner notes that, while trade liberalization has increased the number of competitors in Japanese markets, reducing the "room" for anticompetitive practices, the concomitant reductions in tariffs have resulted in an increase in transnational anticompetitive conduct. The Commissioner concludes that neither argument justifies a moratorium on competition enforcement.[281]

## G. Continuing Tension Over Market Access Barriers

Concern continued to be expressed about perceived government, private and public-private barriers preventing foreign competitors from gaining market access[282] and calls increased for possible multilateral approaches to address such barriers, perhaps through the WTO. The U.S Trade Representative published a National Trade Estimate on Foreign Trade Barriers that highlighted Japanese practices and policies, among those

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278 Id. at 4.

279 Hisami Kurokochi, Commissioner of the Japan Fair Trade Commission, The Relationship between Economic Development and Competition Policy, presented at the 6th Asian and Oceanic Antimonopoly Conference, Canberra, Australia (Nov. 16, 1999), at 4, available at http://www.jftc.go.jp/e-page/speech/kuro1999.htm.

280 Id.

281 Id. at 5-6.

282 See James Michael Lawrence II, Japan Trade Relations and Ideal Free Trade Partners: Why the United States Should Pursue Its Next Free Trade Agreement With Japan, Not Latin America, 20 MD. J. INT'L L. & TRADE 61, n. 127 (structural non-tariff barriers in Japan include competition policy and rules on intellectual property rights).

of other trading partners, that distort and harm U.S. interests.[283] A leading Japanese expert concluded that:

> If impediments to market access, whether governmental or private, are not properly addressed, claims of "unfair trade" among the governments and industries will eventually lead to protectionism. For example, abuses of antidumping legislation or other forms of trade restriction are likely protectionist responses. Therefore, the key concept is "market access." In terms of the WTO system, market access should be regarded as an "equal opportunity" to compete on the merits. Market access in this sense is not necessarily synonymous with an increase of import, investment or other activities in the market of a member state. Rather, import investment and other business activities are decided by conditions of the market in question and competition laws only guarantee that there will be "opportunities" to compete – not necessarily larger market shares in any given market.
>
> The WTO Agreements attempt to guarantee such market access through the removal or reduction of governmental barriers and the convergence of national institutions such as the intellectual property rights vis-a-vis the TRIPs Agreement. In addition to these agreements, other measures to ensure market access vis-a-vis private barriers will become increasingly important. [284]

Illustrative of the heightened tensions over perceived barriers to U.S. companies' participation in Japanese markets, in 1995, the U.S. threatened to file a formal complaint with the WTO regarding Japan's alleged non-enforcement of its antitrust laws. The U.S. sought to cause Japan to break up the *keiretsu* distribution systems in the Japanese automobile and auto-parts markets.[285] Though a complaint under Article XXIII of the GATT was drafted, asserting that Japan's failure to enforce the AMA constituted a nullification or impairment of a benefit of GATT, the complaint was never filed.[286]

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283 The Office of the U.S. Trade Representative, THE 1996 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS 1 (1996)(listing structural barriers, including "relatively lax enforcement of competition laws"). See also Junji Nakagawa and Thomas J. Schoenbaum, The Course of Japanese-American Economic Relations, 16 ARIZ. J. INT'L & COMP. L. 1, 3-4 (1999).

284 Mitsuo Matsushita, Competition Law and Policy in the Context of the WTO System, 44 DEPAUL L. REV. 1097, 1103-04 (1995). See also id. at 1116-17, supporting the creation of competition rules within the TRIPs Agreement.

285 See Gregory K. Bader, The Keiretsu Distribution System of Japan: Its Steadfast Existence Despite Heightened Foreign and Domestic Pressure for Dissolution, 27 CORNELL INT'L L.J. 365, 366 (1994)(the first "Bush administration targeted the keiretsu as a significant trade barrier and pressed the Japanese to enforce their antimonopoly laws against these groups").

286 Daniel Steiner, The International Convergence of Competition Laws, 24 MAN. L.J. 577, 616-18 (1997). Though the WTO does not include a set of affirmative competition rules, debate continues about

A highly publicized instance of extraterritorial application of U.S. criminal antitrust law also raised tensions between Japan and the U.S. in the late 1990s.[287] The criminal indictment and subsequent trial and acquittal of the Japanese defendant company[288] for the first time extended the criminal reach of the Sherman Act to wholly foreign conduct.[289] In 1996, during the pendency of the government's appeal of the district court's quashing of the indictment, the Government of Japan submitted a brief as *amicus curiae* with the First Circuit, stating that:

> It is neither the wish nor the intention of the Japanese Government to take issue with the United States Government in this Court concerning the facts of the particular case. The concern of the Japanese Government is instead with the legal issue of the inappropriate reach and extent of United States legislation. The essence of the Japanese Government's position is that the conduct of Japanese legal persons in the Japanese market is for the Japanese authorities to regulate. Extraterritorial application of the Sherman Act is invalid under international law and violates Japanese jurisdiction.[290]

Following the First Circuit's reinstatement of the indictment against Nippon Paper, the Government of Japan filed an *amicus curiae* brief in support of the defendants' petition for certiorari, stating that:

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whether it should. See, e.g., Andrew T. Guzman, Antitrust and International Regulatory Federalism, 76 N.Y.U. L. REV. 1142, 1156-1163 (2001). See also Harvey M. Applebaum, The Interface of the Trade Laws and the Antitrust Laws, 6 GEO. MASON L. REV. 479, 492 (1998)(concluding that the need will continue for the "antitrust-competition law guarantee of free market interplay," even though trade law protections may be less necessary as free trade expands).

287 See generally Chad Stockel, Sherman's March on Japan: U.S. v. Nippon Paper and the Extraterritorial Reach of Criminal Antitrust Law, 9 TRANSNAT'L L. & CONTEMP. PROBS. 399 (1999).

288 At the conclusion of a 26-day trial, the jury was unable to reach a verdict. Judge Gertner thus declared a mistrial. When the Department of Justice subsequently sought to proceed with a retrial, the defendant renewed its motion for judgment of acquittal pursuant to Fed. R. Crim. P. 29, which the Court granted in July of 1999.

289 United States v. Nippon Paper Indus. Co., 109 F.3d 1, 4 (1st Cir. 1997), cert. denied 118 S. Ct. 685 (1998). The case followed earlier civil cases applying the Sherman Act extraterritorially, including United States v. Pilkington plc, 6 TRADE REG. REP. (CCH) ¶ 45,094, at 44,689 (D. Ariz., filed May 25, 1994), final judgment entered, 1994-2 TRADE CAS. (CCH) ¶ 70,842 (D. Ariz. 1994); and Hartford Fire Ins. Co. v. California, 509 U.S. 764 (1993). See also Jeffrey N. Neuman, Through a Glass Darkly: The Case Against Pilkington plc, under the New U.S. Department of Justice International Enforcement Policy, 16 J. INTL. L. BUS. 284 (1995); David A. Harris, United States v. Pilkington plc and Pilkington Holdings, Inc.: The Expansion of International Antitrust Enforcement by the United States Justice Department, 20 N.C.J. INT'L '. & COM. REG. 415 (1995).

290 Brief of Amicus Curiae the Government of Japan at 3, United States v. Nippon Paper Industries Co. (1st Cir. 1996).

> It is the opinion of the Government of Japan that if the First Circuit's decision is allowed to stand, Section 1 of the Sherman Act will be applied in the criminal context in a manner inconsistent with well established international law. This will have profound implications for the sovereignty of Japan and for customary relations between nations.[291]

Commentators in both countries have expressed concerns about the propriety and legality of extraterritorial criminal enforcement of the antitrust laws and have deplored the perceived need to resort to unilateral action.[292] Others have emphasized the likely ineffectiveness of using extraterritorial enforcement as a means to open markets[293] or as a lever to persuade Japan to increase enforcement of the AMA.[294]

In 2001, President Bush and Prime Minister Koizumi launched the Regulatory Reform and Competition Policy Initiative, regarded as "one of the six 'pillars' of the

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[291] Brief of Amicus Curiae the Government of Japan at 2-3, Nippon Paper Industries Co. v. United States (S. Ct. 1997).

[292] See, e.g., Mark A. A. Warner, Restrictive Trade Practices and the Extraterritorial Application of U.S. Antitrust and Trade Legislation, 19 J. INTL. L. BUS. 330 (1999); Jennifer Quinn, Sherman Gets Judicial Authority to Go Global: Extraterritorial Jurisdictional Reach of U.S. Antitrust Laws are Expanded, 32 J. MARSHALL L. REV. 141 (1998); Hamilton Loeb & Behnam Dayanim, Unilaterlism in International Trade Relations: The Recent United States-Japan Experience and Privatization of Unilateralism?, 16 Ariz. J. Int'l & Comp. L. 77, 90 (1999)(perceiving the "evident taming of the unilateralism of the 1980s" as "another accomplishment to add to [the] list" of recent products of trade law such as NAFTA and the WTO); Tony A. Freyer, Restrictive Trade Practices and Extraterritorial Application of Antitrust Legislation in Japanese-American Trade, 16 Ariz. J. Int'l & Comp. L. 159, 180 (1999)("Japan's sanction of the growing international antitrust culture provided useful context for understanding the Japanese government's Nippon Paper brief").

[293] See Spencer Weber Waller, Can U.S. Antitrust Laws Open International Markets?, 20 J. INT'L L. BUS. 207, 229 (2000)("The reality is that most market access problems amenable to antitrust [solutions] are violations of other [countries'] antitrust regimes and not those of the United States. The solution is much less far reaching than the passage of international antitrust codes or the creation of an elaborate role for the WTO in the competition area."); Aubry D. Smith, Bringing Down Private Trade Barriers – An Assessment of the United States' Unilateral Options: Section 301 of the 1974 Trade Act and Extraterritorial Enforcement of U.S. Antitrust Law, 16 MICH. J. INT'L L. 241, 257 (1994); Jean Heilman Grier, The Use of Section 301 to Open Japanese Markets to Foreign Firms, 17 N.C.J. INT'L L. & COM. REG. 1 (1992)(discussing the so-called "Super 301" bilateral trade agreements signed in 1990 under which Japan agreed to take certain steps to open its public sector market in certain industries).

[294] Michael Peter Waxman, Cultural Conceptions of Competition: Enforcing American Private Antitrust Decisions in Japan: Is Comity Real?, 44 DEPAUL L. REV. 1119 (1995)("Despite regular statements to the contrary by the Japanese government it is highly unlikely that Japan will increase significantly either its public enforcement of competition law (much less expand its virtually non-existent private enforcement) or recognize and enforce foreign decisions based on the exercise of extraterritorial jurisdiction by U.S. courts").

U.S.-Japan Economic Partnership for Growth."[295] The initiative is seen as crucial by the United States Trade Representative, who regards the Japanese economy as continuing to "beset" by market access barriers.[296]

## H. Challenges to Harmonization Presented by U.S. Expansion of Patentable Subject Matter

Concerns have also been raised about the possible impact on international relations and economic systems resulting from the perceived expansion of patentable subject matter under 35 U.S.C. § 101 (2000), including notably the recognition of business method patents by the Federal Circuit in State Street Bank & Trust Co. v. Signature Financial Group, Inc.[297] This and other developments in the U.S. have been seen as "blurring the boundaries of patentable innovation,"[298] and creating patent rights inconsistent with those available in Japan and other jurisdictions.[299]

In response to these concerns, the JFTC recently created a Study Group Concerning Patents in New Areas and Competition Policy, which is expected to meet monthly.[300] The group includes university professors in scientific fields, an assistant

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295 See United States Trade Representative, JAPAN TRADE SUMMARY (Apr. 1, 2002), available at http://www.ustr.gov/reports/nte/2002/japan.PDF.

296 Id.

297 149 F.3d 1368 (Fed. Cir. 1998). See generally Ann Marie Rizzo, The Aftermath of State Street Bank & Trust v. Signature Financial Group: Effects of United States Electronic Commerce Business Method Patentability on International Legal and Economic Systems, 50 DEPAUL L. REV. 313 (2000)(the development may in the short-run disadvantage foreign competitors who compete under stricter standards of patentability, but, in the long-run may result in lowered standards in other jurisdictions).

298 Brian P. Biddinger, Limiting the Business Method Patent: A Comparison and Proposed Alignment of European, Japanese and United States Patent Law, 69 FORDHAM L. REV. 2523, 2550 & 2552-53 (2001)(proposing U.S. legislation to more closely align the U.S. scope of patentable subject matter with that of Europe and Japan); Henry M. Gladney, Digital Intellectual Property: Controversial and International Aspects, 24 COLUM. – VLA J.L. & ARTS 47, 84 (2000)(arguing that international competition and weaker patent laws in other jurisdictions, including Japan, has "encourag[ed] a weakening of novelty and obviousness standards, broaden[ed] . . . patentable innovation to include software, and quite recently so-called 'business methods,' [leading] to many weak patents, perhaps because the USPTO is poorly informed about new areas.")

299 See Peter R. Lando, Business Method Patents: Update Post State Street, 9 TEX. INTELL. PROP. L.J. 403, 423 (2001)(finding it unlikely that business method patents would meet the requirement under the Japanese patent system, of a "technical effect" or contribution.) See generally JAPANESE PATENT OFFICE IMPLEMENTING GUIDELINES FOR EXAMINATION OF INDUSTRIALLY APPLICABLE INVENTIONS, 1.1 (Feb. 27, 1997), available at http://www.jpo-miti.go.jp/infoe/txt/indstry-e.txt (listing inventions that are not considered to be patentable under the Patent Act, which include, but are not limited to: natural laws, as such; mere discoveries where the inventor does not create a technical idea; personal skill; aesthetic creations; and mere presentation of information).

300 See Japan Fair Trade Commission, STUDY GROUP CONCERNING PATENTS IN NEW AREAS AND COMPETITION POLICY, March 22, 2002, available through http://www.jftc.go.jp/. At the time of the preparation of this paper, this information, and the minutes of the first two meetings of the group, held on

professor of economics, the director of NTT's intellectual property center, the director of Dai-Nippon Seiyaku (Pharmaceutical) Co., Ltd.'s Legal Division, two persons who are both attorneys at law and patent attorneys, a law professor, and (participating as an observer), the Chief of the JPO General Affairs Technology Research Section. The introduction to the group on the JFTC website indicates that the main items to be considered by the group will include the "grant and exercise of business method patents and biotech patents from a competition policy perspective.

The first meeting of the group, held on March 27, 2002, included a discussion of the current approach to grants and exercise of business method patents and biotech patents.[301] The group discussed the tendency of the scope of such patents to expand "through the advancement of technology and through pro-patent policy," and the pursuit of expansion of such patents through strengthening the availability of damages and possible criminal penalties.[302] One important aspect of that topic on which the group will focus is whether overbroad patent protection may undermine incentives for research and development by competitors, and thus prevent new innovations, competition, technology development and dissemination of technologies.[303] The group identified, among "main items" to be considered, the following: (i) issues related to the grant of such patents, including issues concerning the breadth of scope and ambiguity in such patents, and the issue of non-substitutability; and (ii) competition measures to respond to those concerns from both the perspective of AMA enforcement and through the administration of the patent system.[304] The minutes state that the group plans to produce a report in June, 2002.[305]

The group held its second meeting on April 26, 2002 and discussed the concern that too broad AMA enforcement against patents may interfere unduly with business, especially if enforcement efforts are too strong in the application of the AMA's prohibition against abuse of a dominant bargaining position.[306] The group also discussed problems caused by patent holders sending letters asserting infringement without positive

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March 27 and April 26, 2002, respectively, were available only on the Japanese language portion of the site. References herein to documents related to this group are to the English translations by Toshiaki Tada, provided by the FTC.

301 Japan Fair Trade Commission, MINUTES OF 1ST MEETING OF STUDY GROUP CONCERNING PATENTS IN NEW AREAS AND COMPETITION POLICY, March 27, 2002, available, in Japanese, through http://jftc.go.jp/.

302 Id. at 1.

303 Id.

304 Id. at 2.

305 Id.

306 Japan Fair Trade Commission, MINUTES OF 2ND MEETING OF STUDY GROUP CONCERNING PATENTS IN NEW AREAS AND COMPETITION POLICY, 1, April 26, 2002, available, in Japanese, through http://jftc.go.jp/.

proof of such infringement, especially when such letters are directed to third parties and not to the alleged infringer itself.[307] The group discussed technology transfer organizations in universities and concluded that, because such organizations typically do not prevent other entities from transferring technologies produced by universities, it would be extremely rare for such organizations to raise issues from a competition policy perspective.[308]

The group discussed the appropriate use of compulsory licenses in connection with research and development activities in the field of genetic medicine, concluding that, where negotiations between senior patentees and junior patentees break down, invocation of compulsory licensing may be appropriate under Section 92 of the Patent Act, for dependent inventions.[309] Because of concerns regarding the effect of compulsory licensing on innovation, the group concluded that its use should be limited to cases where a substantial issue exists in connection with competition policy. The group noted that, under the 1994 Patent Agreements between Japan and the U.S., the compulsory licensing system is not supposed to be used except to redress practices found by a judicial or administrative procedure to be anticompetitive.[310] The group also discussed issues presented by the inability to challenge the validity of a patent in the context of a suit under the AMA, and concluded that only in limited cases will the AMA apply to patents not yet determined to be invalid.[311]

## I. Deregulation

Calls for further deregulation by the U.S. Trade Representative,[312] together with the ongoing recession, have spurred a movement toward deregulation (*kisei kanwa*) known as the Three-Year Program on Promotion of Regulatory Reform,[313] that is seen as the "most important policy in Japan now."[314] Deregulation of various industries,

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307 Id.

308 Id. at 1-2.

309 Id. at 2.

310 Id. See 1994 Agreements § 3.

311 Id.

312 See Deputy USTR Wants Further Deregulation in Japan, JIJI PRESS TICKER SERVICE, January 24, 2002; The Office of the U.S. Trade Representative, THE 2002 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS, 203 (2002), available at http://www.ustr.gov/reports/nte/2002/japan.PDF (characterizing the Japanese economy as "[b]eset with structural rigidity, excessive regulation, and market access barriers").

313 Three-Year Program on Promotion of Regulatory Reform (Cabinet Decision, March, 2001)(the "Regulatory Reform Initiative").

314 Akinori Yamada, Head of Oligopolistic Industry Affairs Office Economic Bureau, Japan Fair Trade Commission, presented at the Fordham Corporate Law Institute Conference on International

including banking and telecommunications have proceeded apace.[315] Concern has been expressed, however, that agencies could use the administrative guidance process to thwart the effect of repealing official regulations.[316]

At the same time that the Japanese government focuses on deregulation, many troubled industries have seen a great increase in merger activity,[317] including most notably the banking, insurance and airline industries.[318] This is partly a response to normal market forces compelling, for example, companies with complementary strengths in territories or product lines, to seek the synergies available through combination. In part, however, the recent spate of mergers also appears to be an effort to ensure survival of weak institutions, thus averting disruption of business channels and further increases in unemployment, but likely perpetuating inefficiencies and delaying Japan's emergence from recession.

In response to the Regulatory Reform Initiative, the JFTC has implemented the following measures: (1) criminal prosecutions to "actively crack down on price cartels, bid-rigging and other . . . AMA violations"; (2) active promotion of deregulation and competition policy, including "rectifying administrative guidance that restrains competition"; (3) "ensur[ing] appropriate enforcement of the AMA to respond to the globalization of the economy, including "respond[ing] to the issues of market access from abroad"; and (4) strengthening the JFTC's systems and functions.[319]

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Antitrust Law and Policy, New York, NY (Oct. 16-17, 1997), at 6, available at http://www.jftc.go.jp/e-page/speech/971015.htm.

315 See id. at 6-7 (the Deregulation Promotion Plan provides that the JFTC shall review and recommend ways to further deregulation. As part of this initiative, the JFTC conducted a comprehensive study of the electric power, gas supply and domestic passenger airlines businesses in 1997; Yoshio Ohara, Competition in Industries Recently Deregulated in Japan, 23 FORDHAM INT'L L.J. 45 (2000).

316 Id. at 7.

317 See Japan Fair Trade Commission, TRENDS IN THE NOTIFICATIONS RELATED TO CHAPTER FOUR OF THE ANTIMONOPOLY ACT IN FISCAL YEAR 2000, May 23, 2001, available through http://www.jftc.go.jp (170 notified mergers in FY 2000, an increase of 12.6% from the 151 notifications filed in FY2001).

318 See Shogo Itoda, Commissioner of Japan Fair Trade Commission, "Yesterday, Today and Tomorrow: Competition Policy of Japan," presented at Chatham House, London, UK (Feb. 22, 2000), at 7 (noting need for JFTC to ensure that planned bank mergers will not hamper competition due to the "enlargement of corporate groups," but assuming that the AMA "would not be a major stumbling block" for these mergers), available at http://www.jftc.go.jp/e-page/speech/20000222.htm; FTC Gives Green Light to Yasuda-Nissan Merger, JIJI PRESS TICKER SERVICE, March 14, 2002 (JFTC approval of merger between Yasuda Fire & Marine Insurance Co. and Nissan Fire & Marine Insurance Co.); Japan Fair Trade Commission, A BUSINESS CONSOLIDATION BY JAPAN AIRLINES AND JAPAN AIR SYSTEMS THROUGH ESTABLISHMENT OF A HOLDING COMPANY (Press release, April 26, 2002)(preliminary), available through http://www.jftc.go.jp/ (noting the approval of the JAL-JAS combination, a reversal from the JFTC's initial rejection of the transaction).

319 Japan Fair Trade Commission, RECENT ACTIVITIES OF THE FTC, June 2001, available through http://www.jftc.go.jp.

## V. An Overview of Progress and Remaining Challenges

### A. Significant Harmonization to Date

From the advent of the AMA through today, the JFTC's approach to the application of antitrust law to restrictive clauses in IP licenses generally has moved in parallel with the U.S. agencies' enforcement policies and guidelines. From the strict scrutiny of virtually all restrictive license provisions under the *1968 Guidelines*, Japan has moved to a rule of reason approach that emphasizes analysis of the likely economic effect, or lack thereof, in the relevant market.

Principally through the TRIPs process and the 1994 Patent Agreements, the intellectual property laws and procedures of the U.S. and Japan have converged, though important differences remain. The two countries, together with the EU, have compiled a proposal for further strengthening of intellectual property protection under TRIPs during the Millenium Round of Multilateral Trade Negotiations.[320]

The *1999 Guidelines* espouse an approach to market definition that is consistent with the approach applied by U.S. courts and agencies (with the possible exception of the omission of the concept of innovation markets). Japan and the U.S. are in strong agreement regarding the signal importance of protecting the incentives for innovation created by intellectual property laws, and that licensing of IP rights is generally procompetitive.[321] They also expressly acknowledge that IP rights should be analyzed under their respective antitrust laws in the same way as any other species of property.[322] Likewise, both nations' enforcement agencies recognize that intellectual property should not be presumed to create market power, and that the determination of whether IP confers such power requires standard market definition techniques.[323]

The types of licensing restraints subjected to serious scrutiny by U.S. and Japan are also similar. They include agreements between actual or potential competitors that may prevent competition that would have occurred absent the license.[324] Vertical

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320 See. J.H. Reichman, The TRIPS Agreement Comes of Age: Conflict or Cooperation with the Developing Countries? 32 CASE W. RES. J. INT'L L. 441, 454 (2000).

321 Cf. *1999 Guidelines* Part 1 § 1 ("Transfers of technology, whether through licensing or otherwise . . . are also basically considered to have procompetitive effects") with *U.S. IP Guidelines* § 2.0(c)("The Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.")

322 Cf. *1999 Guidelines* Part 1 § 2(2)(applying same approach to defining goods or services market as used to define a relevant technology market) with *U.S. IP Guidelines* § 2.0.

323 Cf. *U.S. IP Guidelines* § 2.0 with the *1999 Guidelines* lengthy discussion of the application of the rule of reason to analyze competitive effects.

324 Cf. *1999 Guidelines* Part 1 with *U.S. IP Guidelines* §§ 3.1 & 4.1.

restraints subject to challenge in both jurisdictions include those that may exclude competitors from inputs and access to markets and those that facilitate horizontal collusion.[325] Both regimes also categorically condemn horizontal and vertical price restrictions.[326]

The changes in Japan's IP laws and policy may have less to do with external pressure than with internal economic reality and appear driven by the fact that:

> . . . from its position in the 1960s as an economy that relied extensively on the receipt and modification of externally developed technology, Japan has now emerged as an economy where many firms define the technological frontiers in their industries[.] [T]he ratio of the value of Japan's technology exports to the value of technology imports . . . increased from roughly forty percent in fiscal 1985 to roughly one hundred percent in 1989 – resulting [more than a decade ago] in a virtual equality in value between exports and imports of technology.[327]

Japan is now a major exporter of technology. This fact has had, and likely will continue to have, as much or more effect on Japan's intellectual property and competition policies than all the government summits and policy initiatives undertaken to date. The great and growing importance of Japanese contributions to global innovation gives Japan a great stake in effective intellectual property protection consistent with international norms.[328]

## B. Remaining Differences and Challenges

### 1. Perceived Need to Further Strengthen JFTC Enforcement

The Secretary General of the JFTC recently stated that, though "competition policy has gradually come to be recognized as a pillar of Japan's basic economic policy[,] [u]nfortunately, . . . I can't say that the [AMA] has taken root throughout Japan."[329]

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[325] Cf. *1999 Guidelines* Part 1, Part 3 §§ 2(2)(a) – (c) & Part 4 § 1(2) with *U.S. IP Guidelines* §§ 3.1 & 4.1.

[326] Cf. *1999 Guidelines* Part 4 §§ 5(2)(a) & (b) with *U.S. IP Guidelines* §§ 3.4 & 5.2.

[327] Thomas J. Klitgaard, The Context for Innovation in Japan: Comparative Aspects and Some Practical Comments, 21 CAN-U.S. L.J. 55 (1995).

[328] See Keith E. Maskus & Christine McDaniel, Impacts of the Japanese Patent System on Productivity Growth, 11 JAPAN & WORLD ECON. 557 (1999).

[329] Akio Yamada, Secretary General of the Japan Fair Trade Commission, "Competition Policy in the Future," presented to the American Chamber of Commerce in Japan (Feb. 2, 2001), at 12, available through http://www.jftc.go.jp/.

Deep involvement of governmental organizations in bid-rigging, beyond the current reach of the AMA,[330] continue to breed cynicism about the stated broad commitment to rigorous competition enforcement.

Though a JFTC Commission stated in 2000 that the JFTC "barks loudly and bites violators hard,"[331] and, as documented above, there has been meaningful increase in JFTC enforcement activity over the decades, especially in anti-cartel and bid-rigging investigations and prosecutions,[332] many observers continue to believe that enforcement activity and the severity of punishments must increase significantly to create an appropriate level of deterrence.[333]

2. Inability to Challenge Patent Validity in Antitrust Litigation

The *Walker Process*[334] decision and its progeny have created a subcategory of antitrust law dealing with patents acquired unlawfully or inequitably. Under the Japanese Patent Act, challenges to the validity of a patent can be pursued only before the Japanese

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330 Id. at 11.

331 Shogo Itoda, Commissioner, Japan Fair Trade Commission, Remarks at a Meeting Organized by the Royal Institute of International Affairs 4 (Feb. 22, 2000), available at http://www.jftc.admix.go.jp/e-page/speech/20000222.htm.

332 See Biotechnology Business News: Japanese FTC Acts Against Pharmaceutical Cartels, CHEMICAL BUSINESS NEWS BASE, June 14, 2001; Anaushia Kanagasabai, A Summary of Political, Economic, Trade, Business and Product News Affecting the Chemical and Related Industries, CHEMICAL NEWS & INTELLIGENCE, May 31, 2000 (reporting that the JFTC "raided the offices of seven chemicals [sic] companies this week, on suspicion of price fixing in the domestic polypropylene (PP) market"); FTC Orders 11 Aerial Surveying Firms to Pay 263-M.-Yen Surcharge, JIJI PRESS TICKER SERVICE, April 3, 2002 (11 companies fined for rigging bids for aerial surveying and measuring contracts); FTC Investigates "Price-Fixing" of Clinical Tests, YOMIURI SHIMBUN, March 28, 2002 (JFTC carries out inspections at seven major clinical testing companies suspected of violating the AMA by rigging bids for contracts with government hospitals); 30 Firms Searched Over Signal Bids, YOMIURI SHIMBUN, March 1, 2002 (JFTC searches offices of about 30 companies on suspicion of collusion over public bids for traffic lights); Major News Items in Leading Japanese Newspapers, XINHUA GENERAL NEWS SERVICE, February 20, 2002 (JFTC searches headquarters and branch offices of major construction material manufacturers on suspicion of their having formed illegal cartels in the sale of extruded cement panels); 34 Firms to Appeal Bid-Rigging Judgment, Yomiuri Shimbun, January 8, 2002 (describing JFTC order to return ¥ 700 million of profits gained through suspected bid-rigging for public works projects).

333 See generally James D. Fry, Struggling to Teethe: Japan's Antitrust Enforcement Regime, 32 LAW & POL'Y INT'L BUS. 825, 856-57 (2001)("recognizing the laudable efforts of the JFTC in the past decade to enforce the AMA with the tools of enforcement that the AMA provides" and commending the "Government of Japan's efforts to increase the size of the JFTC staff and the amount of its budget," but finding insufficient penalties in the surcharge system, too infrequent use of criminal sanctions, barriers to private litigation, and the absence of contempt powers that could ensure compliance with JFTC cease and desist orders mean that "no amount of effort by the JFTC can put teeth into the AMA's otherwise toothless enforcement measures.")

334 Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965).

Patent Office (JPO).[335] Accordingly, considerations of the validity of a patent are not undertaken by the JFTC or the courts considering a case under the AMA. The *1999 Guidelines*, however, accord grey list treatment to license provisions that prohibit licensees from contesting the validity of the licensor's patent. Such provisions, therefore, could fail to pass muster under the rule of reason analysis applied to them, providing an avenue for preserving the licensee's right to challenge the validity of the patent in the JPO.

### 3. Perceived Overprotection of Licensee's Interests

Some commentators continue to discern in the *1999 Guidelines* and statements by JFTC officials a tendency toward overprotection of the licensee inconsistent with the agency's expressed deference to the parties negotiating the license.[336] These concerns are usually attributed to the guidelines' discussion of abuses of a "dominant bargaining position."[337] Abuse of a dominant position is familiar as a violation of art. 82 of the EC Treaty, and as a rough equivalent to an attempt to monopolize under Section 2 of the Sherman Act. But U.S. antitrust law does not concern itself with the relative bargaining powers of the licensor and licensee (or any other economic actors). Critics see the creation of an antitrust violation for "abusing" one's bargaining position as an expression of a concern for the "underdog" rather than for competition itself.[338]

### 4. Strict Scrutiny of Exclusive Grantback Clauses

The *1999 Guidelines* allocate various types of grantback provisions among all four of the guidelines' levels of scrutiny, ranging from exemption to prohibition, depending on the specific nature and scope of the provisions. "Completely exclusive"

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335 Patent Act, arts. V-VII (as amended 1998), available at http://www.jpo-miti.go.jp/. See also Teruo Doi, THE INTELLECTUAL PROPERTY LAW OF JAPAN, 33-35 (1980); Brian G. Strawn, Guide to Japanese Intellectual Property Law, 26 AIPLA Q.J. 55, 68 (1998).

336 See, e.g., Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 752-54 (2001).

337 *1999 Guidelines* Part 4 § 1(2). See also AMA § 2(9)(v)(prohibiting as an unfair trade practice "dealing with another party by unjust use of one's bargaining position. . . ."). See Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 767 (2001)(Under the *1999 Guidelines* Part 4 § 1(2), a licensor is regarded as being in a dominant bargaining position if the licensee is "obliged to accept the licensor's requests even if they are excessively disadvantageous to the licensee, because the licensor's denial or suspension of technology transactions would present major obstacles to the licensee's business. In making this judgment, various factors will be taken into consideration, such as the degree of dependence on the patent, etc., by the licensee, the positions held by the licensor and licensee in the product or technology market, the possibility that the licensee could change licensors, circumstances in the said product or technology market and the disparity between the licensor and the licensee in their scale of business etc.")

338 See, e.g., Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 752-53 (2001).

grantbacks are accorded the severe scrutiny of the dark grey list,[339] while completely exclusive grantbacks in exchange for an "appropriate price" fall are on the exempted white list. No such categorical distinctions exist under U.S. enforcement policy.

### 5. Potential Overuse of Compulsory Licensing

The *1999 Guidelines* expressly recognize that a unilateral refusal to license a patent may constitute monopolization in violation of the AMA,[340] if the refusal substantially restricts competition in a relevant market. Similarly, the guidelines' condemnation, under certain circumstances, of "concentrations" of patents may require IP owners to license their technology if the prospective licensee otherwise will be substantially impeded in entering or continuing to compete in a relevant market. The guidelines do not begin from the same premise as does U.S. policy – that *generally* a refusal to license (or grant access to non-IP property) will not constitute an antitrust violation.[341] Similarly, the guidelines do not make a point of emphasizing that cases that may require compulsory licensing are exceptions to that general rule. Whether this is a difference that will result in more frequent use of compulsory licensing in Japan than in the U.S. or the EC remains to be seen.[342]

### 6. The Need for More Rigorous Economic Analysis

In stark contrast to the U.S. enforcement agencies, the JFTC uses economists only sparingly and econometric models are generally not used.[343] The JFTC has recently increased its use of outside consulting economists, principally academics, and the agency sponsors training for its employees in economics, as well as business and law, including

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339 Such restrictions require that the licensee license or assign to the licensor all rights to the licensee's improvements to the licensed technology.

340 *1999 Guidelines* Part 3 § 3(2).

341 Section 2 of the *General Designations of Unfair Trade Practices*, promulgated by the JFTC under the AMA in 1982, however, indicates that, to be unlawful, a unilateral refusal to deal must be unjust, restrict the quantity or substance of a good or service involved, or cause another business entity to take an act that constitutes a specific unfair trade practice under the *General Designations*. JFTC NOTIFICATION No. 15 of June 18, 1982 [GENERAL DESIGNATIONS FOR UNFAIR TRADE PRACTICES]. As a practical matter, unilateral refusals to deal are not an issue under the AMA unless such a refusal is used "as a means of ensuring the completion of an illegal act or attaining an improper goal under the [AMA]." ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 31 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001).

342 See generally Joseph A. Yosick, Compulsory Licensing for Efficient Use of Inventions, 2001 U. ILL. L. REV. 1275 (2001)(suggesting implementing compulsory licensing in U.S. patent law, by passing legislation similar to patent laws of other nations). See also TRIPs, art. 31 and the Paris Convention, art. 5, both of which permit compulsory licenses under specified circumstances. Paris Convention for the Protection of Industrial Property, Sept. 5, 1970, 21 U.S.T. 1583, 828 U.N.T.S. 305 ("Paris Convention"), administered by the World Intellectual Property Organization (WIPO).

343 ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 12-13 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001).

training in foreign countries.[344] Courts also rarely engage in, or entertain evidence regarding, economic models or analyses that could inform decisions about relevant market definition, causation and extent of damages attributable to the challenged anticompetitive conduct.

### 7. Remaining Procedural and Substantive Barriers to Private Antitrust Litigation

Seeking private relief for antitrust injury remains difficult, due to high burdens of proof imposed on plaintiffs by courts, procedural hurdles to private lawsuits under the AMA, and the complexity, cost and duration of litigation in Japan, and damage awards that are often perceived as inadequate. Private parties may sue for damages for violations of the AMA under either Section 25 of the AMA or Article 709 of the Code of Civil Procedure. Section 25 imposes strict liability, requiring compensation for those injured by conduct that constitutes private monopolization, unreasonable restraint of trade or an unfair trade practice under the AMA.[345] As a result of an amendment to the AMA in 2000, such strict liability applies against trade associations violating the AMA and against business entities that engaged in unreasonable restraints of trade or unfair trade practices through international agreements.[346]

In contrast to the strict liability imposed under Section 25 of the AMA, Section 709 of the Code of Civil Procedure requires proof of willful or negligent behavior, in addition to adequate causal relationship, damages and the amount of damages.[347] Despite this added burden, there are good reasons for a plaintiff to proceed under Section 709 rather than Section 25. First, unlike Section 25, Section 709 does not require that a JFTC administrative decision become conclusive against the defendants before a plaintiff may proceed with its suit.[348] Such decisions are the exception and when the JFTC disposes of a case through informal consultation, no private right of action for damages exists.[349] Moreover, unlike Section 25, which requires that suits be filed in Tokyo High Court, a

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344 Id. at 12.

345 Id. at 68.

346 Id.

347 Id. at 69.

348 Id. at 68-69.

349 See Harry First, Antitrust Enforcement in Japan, 64 ANTITRUST L.J. 137, 147 (1995)("This gives the [JFTC] the power to extinguish completely the private right of action by treating a matter informally rather than proceeding to a formal decision.") As noted above, the AMA was amended in 2000, effective April 1, 2001, to permit private actions for injunctive relief against unfair trade practices (but not against unreasonable restraints of trade or private monopolization, and not for damages). See Japan Fair Trade Commission Recent ACTIVITIES OF THE FTC, June 2001, at 7 ("Improvement of the civil remedy system"), available through http://www.jftc.go.jp.

plaintiff can pursue remedies under Section 709 in a local court.[350] However, some decisions indicate that courts may require that the plaintiff meet a high burden of proof of the causal link between the anticompetitive conduct[351] and an "almost impossibly high standard of proof on damages in antitrust cases."[352] In the field of IP licensing, of what little case law exists, some appears to hold that foreign parties to international licenses have no standing to challenge a JFTC order revising the license.[353] Between the time of the AMA's passage in 1947 until 1999, a total of eleven private antitrust suits were filed under Section 25 and forty-four under Article 709.[354]

Litigation procedures are complex, and cases are expensive and lengthy.[355] Cases proceed by many short hearings, often separated by weeks or months. *Ex parte* meetings with the court are not only permitted, they are commonplace and a single case typically includes several such meetings by the court with either side. Consistent with a long tradition of conciliation as a "critical adjunct" to formal judicial proceedings,[356] judges

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350 ABA SECTION OF ANTITRUST LAW, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 69 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001).

351 See J. Mark Ramseyer, The Costs of the Consensual Myth: Antitrust Enforcement and Institutional Barriers to Litigation in Japan, 94 YALE L.J. 604, 623-25 (1985)(discussing the Sato v. Sekiyu Renmei kerosene price-fixing litigation which followed a criminal conviction of the defendants by the Tokyo High Court, in which the court found that plaintiffs, who were indirect purchasers from the defendant distributors, had proven the requisite intent under Section 709 but had failed to show the causal link between price-fixing and their alleged damages; this was the first case in which Section 709 was used in lieu of Section 25, and followed a suggestion of such a theory espoused by the Supreme Court of Japan in 1972.)

352 Id. at 626-30 (discussing the court's rejection of seemingly strong proof of damages in the Okawa v. Matsushita Denki Sangyo, K.K. kerosene resale price maintenance litigation, noting that the difficulty in proof ultimately "seems to derive from the courts' unwillingness to engage in economic analysis on issues that involve fundamentally economic questions.")

353 See Novo Industri A/S v. FTC, 22 Gyosei Reishu 761, 17 Kotori Shinketsushu 297, 4 Kokusaitorihiki Hanreishu 211 (Tokyo High Ct., May 19, 1971).

354 Shingo Seryo, Private Enforcement and New Provisions for Damages and Injunctions in Japanese Antitrust, 15 (Jun. 23, 2000)(unpublished symposium paper), cited in Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 761 n. 274 (2001).

355 See ABA ANTITRUST SECTION, COMPETITION LAWS OUTSIDE THE UNITED STATES, Japan, 17 (authored by Junji Masuda)(H. Stephen Harris, Jr., ed., 2001)("[G]iven that actions related to the [AMA] are usually complex, they generally take more time than regular lawsuits. One of the primary judicial reform issues now is shortening the time required for lawsuits"); Joshua A. Newberg, 32 LAW & POL'Y INT'L BUS. 705, 762-63 (2001)("Because of court backlogs resulting, in significant part, from [a] severe shortage of judges, civil cases can easily take five to seven years, or more, to litigate."); Kathryn Tolbert, Japan Altering Legal System to Produce More Lawyers, WASH. POST, Sept. 3, 2000 (technically complex cases can take as much as a decade to litigate). For general discussions of Japanese litigation procedures, see Takeshi Kojima, Japanese Civil Procedure in Comparative Law Perspective, 46 KAN. L. REV. 687 (1998); John C. Lindgren and Craig J. Yudell, "Protecting American Intellectual Property in Japan," 10 COMPUTER & HIGH TECH. L.J. 1, 22-31 (1994)(focusing specifically on procedures in patent litigation).

356 See John O. Haley, AUTHORITY WITHOUT POWER, LAW AND THE JAPANESE PARADOX, 83-96 (1991)(the first statute to authorize formal conciliation in civil cases was passed in 1922, but followed an

actively encourage compromise throughout the proceedings.[357] Damages awarded (in all kinds of litigation, including antitrust) are typically a small fraction of those that might be received in a U.S. verdict (even before trebling). The resulting paucity of case law renders the prospect of litigation daunting.[358] The virtual absence of discovery in Japanese litigation also deters plaintiffs from pursuing remedies in court.[359]

The unavailability of an unfettered private right of action for damages under the AMA[360] is seen as a serious impediment to meaningful private enforcement of antitrust law. Some also see the small Japanese bar, the rarity of contingency fees,[361] and a substantial stamp tax on lawsuits based on a percentage of the alleged damages and payable upon the filing of the lawsuit[362] as additional restrictions to access to the courts.[363] At least one expert has concluded that the statutory requirement that private plaintiffs cannot sue independent of a final JFTC decision was intended to "keep antitrust

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historical pattern of using adjudication not "to enforce claims to achieve ends reflected in legal rules, but to ensure order and stability"; "[b]y the late 1930s, the rejection of litigation as incompatible with collectivist values had become the primary explicit justification" for the expansion of conciliation to cover all civil disputes; a court's recommended settlement could be made binding, without consent of the parties).

357 See Edwin O. Reischauer, THE JAPANESE, 142 (1981)("[G]reat efforts are made to solve disagreements by compromise or conciliation in terms that have something for both sides, rather than by a black and white legal decision in favor of one party.") See also George Sansom, A HISTORY OF JAPAN TO 1334, at 98 (1958)(tracing the origins of the primacy of the values of harmony and compromise to the Han empire's adoption of Confucianism in the 8th century A.D.).

358 See generally J. Mark Ramseyer, The Cost of the Consensual Myth: Antitrust Enforcement and Institutional Barriers to Litigation in Japan, 94 YALE L.J. 604 (1985).

359 See Joshua A. Newberg, 32 LAW & POL'Y INT'L BUS. 705, 763 (2001)("Potential plaintiffs, with otherwise meritorious claims that depend for evidentiary support on access to the documents of the prospective defendants are further deterred from litigation in Japan because of the very limited discovery available under the Japanese rules of civil procedure. The problem of ineffective discovery may be especially acute, moreover, with regard to claims for antitrust damages brought under Section 25 and Article 709" because of the courts' extremely high standards of proof on the issue of causation).

360 See Joshua A. Newberg, 32 LAW & POL'Y INT'L BUS. 705, 764 (2001)("Japanese technology licensing antitrust could likely benefit from the establishment of a more effective private right of action."); J. Mark Ramseyer, The Costs of the Consensual Myth: Antitrust Enforcement and Institutional Barriers to Litigation in Japan, 94 YALE L.J. 604, 623 (1985)(discussing the difficulties presented by the fact that private plaintiffs can proceed only when the JFTC has issued a final administrative decision and only against those parties against which the JFTC's decision was rendered).

361 Carl F. Goodman, The Somewhat Less Reluctant Litigant, Japan's Changing View Towards Civil Litigation, 32 LAW & POL'Y INT'L BUS. 769, 792 (2001)("In Japan, contingent fees, while not illegal, are not widely employed. Japanese lawyers do get a success fee in litigation, but this fee is in addition to the normal fee for handling the case.")

362 J. Mark Ramsseyer, The Costs of the Consensual Myth: Antitrust Enforcement and Institutional Barriers to Litigation in Japan, 94 YALE L.J. 604, 627 n. 142 (1985).

363 Joshua A. Newberg, 32 LAW & POL'Y INT'L BUS. 705, 763 (2001), citing Jon Choy, Japan's Legal System on the Stand, 35 JEI REP. 1, 5 & 9 (2000).

enforcement within the control of the bureaucracy," and that, in addition, Japan has "resist[ed] all efforts to provide the [JFTC] with a legal staff that could independently seek relief in court."[364]

Private actions are one of the principal methods of antitrust enforcement in the United States. The automatic trebling of damages awarded a successful plaintiff and the requirement that a losing defendant pay the plaintiff's reasonable attorney's fee (but not vice versa) provide strong incentives for plaintiffs to assume the role of the "private attorney general" and bear the costs and uncertainty of litigation where substantial evidence of an antitrust violation exists.[365] The absence of an unfettered private right of action for damages under the AMA is perhaps the greatest weakness in the Japanese antitrust enforcement system.[366] The absence of private treble damages or punitive damages[367] for antitrust violations also means that "private individuals in Japan who are injured by antitrust violations have less of a monetary incentive to file lawsuits than their American counterparts, and therefore, damage actions lack sufficient deterrent power."[368]

The absence in the Civil Code of any provision for class actions prevents many victims of antitrust violations from "rais[ing] the damage pool high enough to make litigation financially worthwhile."[369] The absence of litigation in the field, in turn, leads

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364 Harry First, Antitrust in Japan: The Original Intent, 9 PAC. RIM. L. & POL'Y 1, 70 (2000).

365 See generally Hannah L. Buxbaum, The Private Attorney General in a Global Age: Public Interests in Private International Antitrust Litigation, 26 YALE J. INT'L L. 219 (2001).

366 See Harry First, Antitrust Enforcement in Japan, 64 ANTITRUST L.J. 137, 162 (1996)(observing that the absence, as a practical matter, of a private right of action and the higher level of "resources brought to antitrust by private litigants" in the U.S. "marks the most significant difference between the level of antitrust enforcement" in the U.S. and Japan's weak enforcement and concluding that "critical to the viability of antitrust in Japan will be the private cause of action"); Salil K. Mehra, Deterrence: The Private Remedy and International Antitrust Cases, 40 COLUM. J. TRANSNAT'L L. 275 (2002).

367 The Supreme Court of Japan has proclaimed that Japanese Civil Law has as its exclusive purpose compensation, never punishment or deterrence. Kerry A. Jung, How Punitive Damage Awards Affect U.S. Business in the International Arena: The Northcon I v. Mansei Kogyo Co. Decision, 17 WIS. INT'L L.J. 489, 494 (1999).

368 James D. Fry, Struggling to Teethe: Japan's Antitrust Enforcement Regime, 32 LAW & POL'Y INT'L BUS. 825, 852-53 (2001).

369 J. Mark Ramseyer, The Costs of the Consensual Myth: Antitrust Enforcement and Institutional Barriers to Litigation in Japan, 94 YALE L.J. 604, 631 (1985); Koji Shindo, Settlement of Disputes Over Security Transactions, 14 HASTINGS INT'L & COMP. L. REV. 399 (1991)("In Japan, there are no special classes of litigation like American class action suits. . . . [Thus] it is difficult to protect the interests of a large number of plaintiffs as with class actions. In this respect, the Japanese system may be insufficient in providing redress to victims. In particular, parties seeking small amounts may simply give up any opportunity of receiving compensation."); Mark D. West, Why Shareholders Sue: The Evidence from Japan, 30 J. LEGAL STUD. 351, 353 (2001)(the absence of class actions also presents problems in Japanese securities litigation).

to insufficient case law to permit potential plaintiffs from being able adequately to assess a court's likely decision in any given case.[370]

There is a recent increase in suits by residents on behalf of local governments seeking compensation on behalf of citizens from violators of the AMA, particularly in bid-rigging cases. As of February, 2001, some 63 such lawsuits were pending.[371] Governments themselves are also pursuing damages claims, including a damages suit for ¥ 4.3 billion by the Tokyo Metropolitan Government against bid-riggers.[372] In addition, there have been a number of steps toward liberalizing access to the courts in recent years, including a revision of the Code of Civil Procedure in 1996 that, "if broadly interpreted, should lead to greater discovery of documents in the hands of opposing parties."[373]

## VI. Conclusion

All of the foregoing issues, whether specific to intellectual property issues or not, bear on Japan's current approach to the intersection between antitrust law and intellectual property law, as well as trade policy. The absence of meaningful redress in antitrust litigation generally undercuts meaningful redress for anticompetitive conduct involving patents to the same extent as other kinds of violations. The remaining issues specific to IP/antitrust should not be seen in isolation but in the overall context of the continuing need to address broader concerns about the substance and enforcement of Japanese intellectual property laws, the AMA, and trade laws.

Seen through the long lens of history (an especially long lens in the case of Japan), progress in the establishment and enforcement of modern competition law in Japan between 1947 and 2002 has been remarkable. Measured against an ideal of neutral application of consumer welfare-driven antitrust law informed by current economic thought, Japan still has much to do. Developments at the intersection of Japan's intellectual property laws and competition law are particularly promising. These include legislation that has helped bring Japan generally into compliance with the mandates of the TRIPs Agreement, recent amendments and court decisions that increase patent protection in Japan, and licensing guidelines that further liberalize competition scrutiny

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370 See Joshua A. Newberg, Technology Licensing Under Japanese Antitrust Law, 32 LAW & POL'Y INT'L BUS. 705, 764 (2001)("Perhaps the most important consequence of the absence of private technology licensing antitrust litigation [in Japan] is the corresponding absence of technology licensing antitrust case law. While no one would claim that judicial opinions are invariably models of clarity, generally speaking a well-developed body of decisions on a subject tends to enhance the predictability and transparency of the law. By clarifying standards and illustrating the application of rules in a variety of factual circumstances, case law can also improve compliance and allow for more efficient and focused advocacy.")

371 Akio Yamada, Secretary General of the Japan Fair Trade Commission, Competition Policy in the Future, presented to the American Chamber of Commerce in Japan (Feb. 2, 2001), at 6, available through http://www.jftc.go.jp/.

372 Id.

373 Carl F. Goodman, The Somewhat Less Reluctant Litigant, Japan's Changing View Towards Civil Litigation, 32 LAW & POL'Y INT'L BUS. 769, 801 (2001).

of technology transfer agreements, requiring rule of reason competition analysis of almost all types of restraints. JFTC enforcement efforts against cartel activity, has also been more active recently. The JFTC's forward-looking examination of the appropriate role of competition enforcement in new technology markets is laudable. As Japan struggles to emerge from its lengthy and difficult recession, however, pressures exist to subordinate competition law enforcement to industrial policy initiatives or trade liberalization. Continuing commitment to the long-term U.S.-Japan relationship and cultural understanding, as well as engagement with Japan through bilateral and multilateral efforts to build on Japan's progress in advancing its intellectual property, antitrust and trade laws and enforcement policies toward international norms has never been more important to the United States and the global economy.